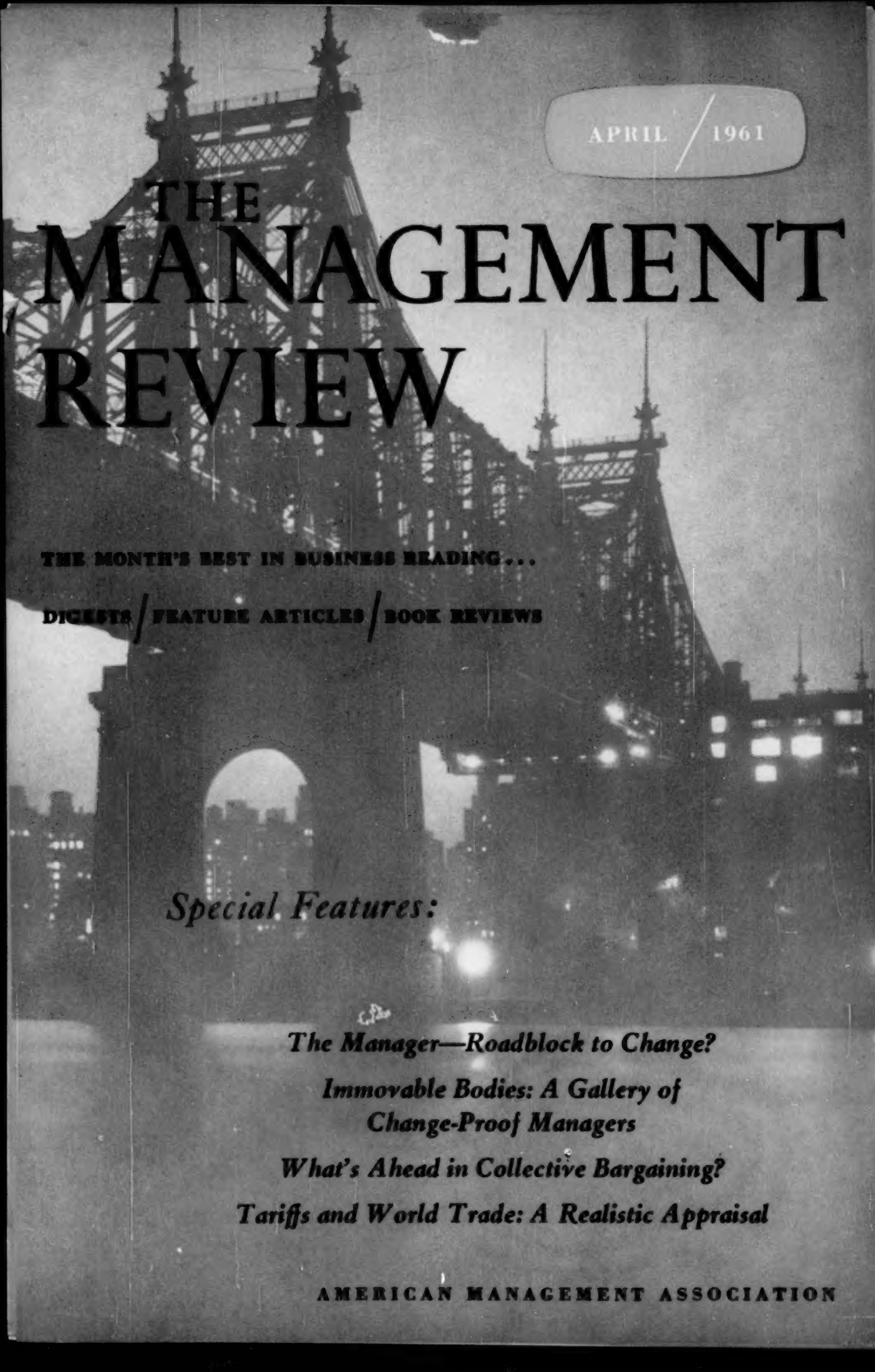

APRIL / 1961

THE MANAGEMENT REVIEW

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The Manager—Roadblock to Change?

Immovable Bodies: A Gallery of Change-Proof Managers

What's Ahead in Collective Bargaining?

Tariffs and World Trade: A Realistic Appraisal

AMERICAN MANAGEMENT ASSOCIATION

in this issue . . .

- **Roadblocks to Change.** We hear a great deal about "employee resistance to change," but management's own opposition—which may take a variety of forms—can be an even more serious problem. In this month's opening feature, Dr. Ben Miller describes the forms of executive behavior through which this resistance is expressed and discusses what management can do about it.

- **Immovable Bodies.** A cartoon feature (page 13) that illustrates the *modus operandi* of some notorious executive opponents of change.

- **New Look in Collective Bargaining.** Last year and the year before, The Management Review published previews of the year's collective bargaining prepared by American Cyanamid's William Karpinsky—forecasts that turned out to be right on the mark. On page 17, Mr. Karpinsky plays a return engagement, describing new developments in labor-management relations and the collective bargaining outlook for the year ahead.

- **Today's Tariff Picture.** The European Economic Community and the European Free Trade Association are changing traditional tariff structures beyond all recognition, says Richard Bailey (Director, Political and Economic Planning, London, England), and their actions can have a profound effect on the U.S. balance of trade, both now and in the future. On page 23, Mr. Bailey provides an excellent and very timely summary of a tangled subject.

—The Editors

APRIL 1961
Volume L, No. 4

THE MANAGEMENT REVIEW

FEATURES

BUSINESS DIGESTS OF THE MONTH

Trends and perspectives

DEPARTMENTS

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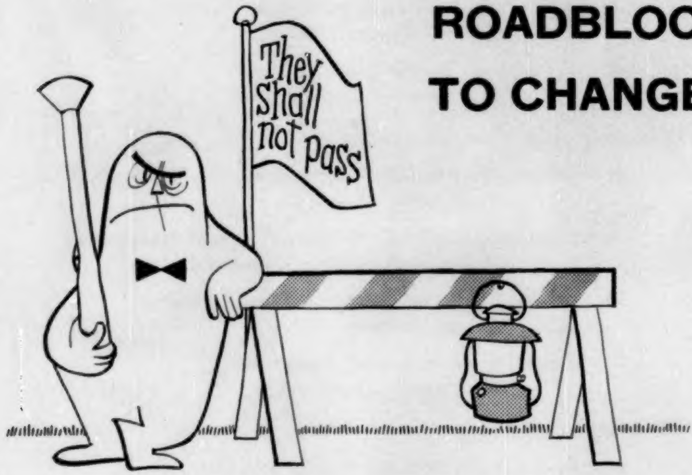
THE MANAGER—ROADBLOCK TO CHANGE?



■ **Ben Miller**

EVERYONE ACKNOWLEDGES that employees resist change. That fact has been well documented, and methods of overcoming their resistance have been proposed, discussed, and put into practice in companies throughout the country.

In contrast, managers like to think of themselves as alert, forward-looking individuals who are always seeking ways to improve company operations. This, in many cases, is undoubtedly true; but it is also true that in many other cases—indeed, perhaps more often than not—it is a picture of executive dynamism that is more fantasy than reality.

Dr. Miller, of the Graduate Division of St. John's University's School of Business Administration, has based this article on one aspect of the research he conducted while preparing AMA's Research Report #44: *Gaining Acceptance for Major Methods Changes.*

The cold fact is that many of today's managers are decidedly unreceptive to the idea of change, and they are the ones who create the greatest obstacles to a successful change in organizational structure and methods. Obviously, the higher a man's position in the organizational hierarchy, the greater is his ability to obstruct changes. There's little an individual employee can do to resist a change that management really wants to put into effect, but an individual executive is often in a position to thwart needed changes—or, at least to impede their application to the point of reducing their effectiveness to a minimum.

THE NEED FOR LEADERSHIP

It is of vital importance for managers to become leaders of change. In his book, *Big Business and Free Men,* James C. Worthy emphasizes the need for executive leadership on a broad level:

> As members of a leadership group, businessmen must assist in developing policies that will deal effectively with emerging problems, many of which are created by advances within business itself. Not to do so, or merely to resist change, is to abdicate and through default to allow others to exercise the initiative.

Even within their own companies, there is evidence that many managers fail to accept change as an essential characteristic of their jobs. A recent research study (conducted by the author for the American Management Association) found that over half of the participating companies encountered difficulties in making major changes—difficulties that were directly attributable to the actions or inactions of top or line management. Such resistance presents a most serious obstacle to a company's progress.

KINDS OF RESISTANCE TO CHANGE

Of course, some kinds of executive resistance to change are inevitable—and understandable. If, for example, a proposed change will diminish an executive's possibilities of advancement or his status in the company—by reducing the importance of his department, reducing the number of his subordinates, making other departments more important to the company's operations, or in some other way—it is only to be expected that he will not be happy with the idea and will oppose the change, either subtly or openly. Similarly, if the change will affect his own work, he may well fear that he won't be

able to handle the new requirements of his job—because of lack of education or training, unfamiliarity with new techniques, or dislike of the type of work that will be required. And, of course, if the proposed change will drastically affect him—will, perhaps, even eliminate his job—the executive has good reason to oppose it, and it is unrealistic to suppose that he will put the company's well-being above his own.

Such opposition as this presents a very real problem, and it is not easily handled. Sometimes, it is possible to show the affected manager that his fears are groundless—that he won't lose prestige, his opportunities will not be lessened, his new job will be well within his powers, or the new situation will in some way be to his advantage as well as the company's. When it is possible to remove or reduce opposition in such a fashion, it should, of course, be done posthaste; but when the executive's fears are amply justified and he *will* be hurt in some way by the change, the problem is more severe. In such cases, every effort should be made to make the change as acceptable as possible to the executive concerned, but there will be times when even this will not be possible, and the problem is one that all concerned will just have to live with.

This kind of executive resistance to change requires special handling, and each case must be treated separately, according to the circumstances involved. But there is another kind of resistance—probably even more prevalent—that is more amenable to generalized solutions. This kind of resistance results from habits of thinking or sets of mind that cause some executives almost automatically to resist any kind of change—or, at best, to hamper its introduction into their corner of the organization.

Before discussing means of dealing with this kind of resistance to change, it would be well to look at some of the forms it can take.

THE NEGATIVE VIEW

One of the most common forms of resistance is found in managers who inevitably take a negative view of any change that is proposed. As soon as a change is suggested, this type of manager is ready to express his resentment and apprehensions, pointing out all the reasons it won't work and all the shortcomings of the plan. If the plan is adopted in spite of his protests, he can easily destroy its

prospective advantages by taking a "Look what we've been saddled with now" attitude—and transmitting it to his subordinates.

There are times, of course, when an essentially negative and fault-finding attitude can be useful in forcing proponents of a change to question their assumptions, check their facts, and strengthen the weak points in their proposal. This was the case in an independent telephone company, which transferred its customer billing to tabulating equipment and then to a computer, over the protests of one of the company's line managers. "The main problem," the manager felt, was that "the methods people had ideas on how the system should go, and we were always explaining how *we* thought it should go." The net result of this running battle, however, was that the manager's ideas were considered and, when appropriate, utilized, so that the final installation was an excellent one.

In many cases, however, the hypercritical executive often has no solid basis to his objections, and his cynicism and fault-finding can be seriously disruptive to the organization. In any event, a little bit of this goes a long way.

UNCONSCIOUS DISSENSION

Perhaps the opposite of this kind of resistance to change is an attitude that seems, on the surface, quite cooperative, but can destroy the company's chances of successfully installing a change. This is the "organization-man" kind of unquestioning acceptance of everything that comes from on high. Managers with this view of change feel compelled to bury any doubts or misgivings about the workability or value of the proposed plan, even to the extent that they may not even be aware of their own opposition to it.

In a southern commercial bank whose records were being changed from a completely manual system to a punched-card system, the head of one department submerged his displeasure, even though he lacked confidence in tab record-keeping as compared with visual means and was unsatisfied with the fact that the old system was to be maintained for an indefinite period while the new one was being installed, thus adding to the department's work load. When questioned, he grudgingly admitted that he was "not sold completely on the usefulness of machine accounting," but he went along with the plan with obvious lack of enthusiasm until its almost inevitable failure.

Does this kind of hidden resistance spring from an unconscious desire to let an unwanted change come to grief? No one can be sure, but certainly it does no one—including the company—any good. Indeed, in this case, it was a significant factor in the collapse of the installation.

APATHY AND INDIFFERENCE

Another essentially hidden kind of resistance is exemplified in the kind of manager who sees his role as merely implementing whatever changes are presented to him by top management or a staff group. Despite the fact that he has no strong feelings either for or against the change, his indifferent attitude can be as fatal to the change as outright defiance, since it is easily transmitted to his subordinates, thus all but dooming the plan before it even gets off the ground. Moreover, an executive with this attitude who takes the position that he "just works here" and has no responsibility for the success of new methods or procedures is extremely unlikely to take steps to anticipate any possible difficulties that may arise during the installation of a change. Obviously, then, the indifferent manager who refuses to commit his energies to the successful implementation of changes frequently causes them to fail by default.

FREE TRANSLATION

Another roadblock to change is the kind of manager who does not resist change so much as he bends it to his own purposes and ideas. Since he is the one most familiar with his department and its personnel, he feels justified in making changes in his own way, without regard for the over-all plans of top management. There are cases, of course, when this free-wheeling approach to change can work well—usually when the manager is intelligent and capable, and the original plan is flexible enough to withstand the variations of content and application to which it is subjected. Even then, however, it would be far better to discuss the "variations" with higher management; then, if they prove desirable, they can be incorporated into the plan and coordinated with other aspects of the operation.

In many cases, a manager's improvisations lead to serious difficulties, especially when the change cuts across departmental lines. This was clearly demonstrated in one company where a manager,

told that his department was to be eliminated in gradual stages, took it upon himself to arrange his employees' transfers in his own way. From time to time, employees who became excess were to be transferred to the tab department, the fastest-growing in the organization. The department head, however, "adjusted" the transfers to suit himself, selecting the poorest employees for transfer and retaining the most efficient until the bitter end. Unfortunately, this "variation" made the better workers subordinate to their less-capable colleagues when they were finally transferred to the tab department. Obviously, the net result when the change was completed was dissatisfaction on the part of the workers and a less efficient organization.

THE PET-PROJECT ATTITUDE

But not all roadblocks to change come from those who resist change, whether overtly, covertly, or unconsciously. On the other side of the coin, there are habits of thought and action on the part of *proponents* of change that can also hinder its effective introduction.

One of the most frequently encountered of these roadblocks is the attitude of the manager who has formulated the plans for a change, or at least has been in on the planning of the change from the beginning—what might be called the "pet project" attitude. Under some circumstances it can be a big help in introducing a change, since the manager involved not only believes deeply in the wisdom of the change, but usually identifies himself so strongly with its success that he expends unusual amounts of energy to gain acceptance of his plan. Ironically, though, his zeal may create difficulties that would not otherwise arise. He may be so determined to have his pet ideas accepted that he becomes unduly sensitive to criticism of his plan and thus overlooks helpful suggestions. Moreover, his "push" tactics may engender resentment on the part of the people who will be taking part in the change, and thereby create resistance to the entire plan.

THE AUTHORITARIAN APPROACH

Another attitude found among proponents of change might be called the authoritarian approach. This attitude is not uncommon among the upper echelons of management—everyone has probably

known at least one executive who believed in change by fiat and, by his apparently (or really) arbitrary pronouncements, created unnecessary difficulties for what might have been a useful and easily accomplished change.

Sometimes an officer or senior executive will learn of a new piece of equipment, a new technique, or a new method of doing a job and will summarily demand its introduction into the organization. At times, the change so demanded is entirely inappropriate to the company's needs; at other times, the change is desirable in itself, but it can be misunderstood, resented, or resisted if the executive hasn't taken the time to prepare his subordinates and win their acceptance.

An example of this attitude appeared in a New England firm that was preparing to install a computer. One highly placed officer saw a computer demonstration and came away so impressed that he ordered the changeover date to be advanced two months. Although a considerable amount of preparation had already been made, this unreasonable pressure created such havoc that for a time the entire installation was in serious danger of collapse. In this case, the executive abused the authority of his position by imposing his will, despite his lack of capacity in the area; he failed to distinguish between authority of position and authority of knowledge.

DEVELOPING POSITIVE ATTITUDES

It is no easy matter to overcome such obstacles to change—to break down resistance, to convert apathy to enthusiasm, and to direct the enthusiasms of proponents of change into productive channels. Since it often involves alterations of deeply held attitudes toward change, intellectual appeals alone can have little impact.

Here are some techniques that have proved useful in solving the problems of managerial resistance to change. They are not, of course, complete solutions, but they represent a starting point for further management thinking. And, as with any similar list of suggestions, the superficial form is less important than an appreciation of the underlying substance.

Appraisal Criteria

Companies that are developing means of appraising executive performance find that one of the most difficult aspects of the task is

the selection of valid criteria. Certainly one appropriate measure of an executive's performance is the degree to which he promotes improvement in company or departmental operations. Whether a formal executive-rating plan exists or not, it should be made clear to each manager that his skill in handling change will be one of the criteria used in judging his capacity as a manager.

Incentives

Normally, we think of incentives only in terms of financial rewards. Unfortunately, merely offering money for superior performance ignores some primary incentives—especially as applied to managers. One of a manager's greatest satisfactions comes from helping create the plans that form the basis for a change. Thus an incentive that would significantly affect the manager's attitude toward innovation would be the opportunity to participate in designing and installing changes.

Atmosphere

This is a matter that goes far deeper than the simple communication of the company's desire for progress to all management levels.

"I'm from the Federal Communications Commission."

The starting point for achieving an innovation-oriented company is a complete review of basic company goals. Such a review should clarify the organization's objectives in regard to growth position in the industry, in regard to products or services, and in regard to the broad issues of the company's relationship with the community and with company personnel. In addition, such sober reflections should illuminate the motives that underlie the company's objectives. Once the over-all direction and purpose have been set forth, a clarification of each manager's role in fulfilling these objectives is more meaningful and appropriate.

Procedures

Changes affecting organization structure or work methods may cause havoc unless top management reaches an accord with all managers on the approach to be used, the sequence to be followed, and the timing of the steps in the change. A clear policy declaration should emphasize top management's intention of reducing the possibility of unilateral and hasty executive decisions, and this policy declaration should be supplemented with procedures indicating how changes are to be planned, directed, and controlled in the company and how managers are to participate in this process. It may also be desirable to establish a special coordinating committee to help resolve difficulties in changes that cut across department lines. This committee should not merely be a debating society, but one possessing the authority to resolve differences about the proper way to handle change.

Management Development

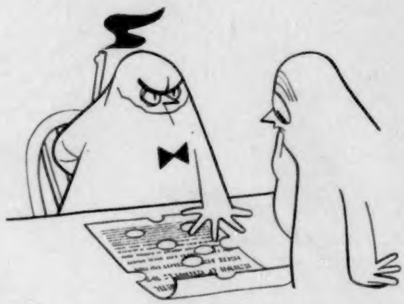
A particular effort should be made to help all managers make better use of our present knowledge about the handling of changes. This does not mean that a distinct program must be set up to deal with the question of handling changes; it can be incorporated into whatever program exists—formal or otherwise—for management development. Probably the most important material for this purpose will be the results of the company's own experiences with change—including past mistakes. With these facts, managers can exchange views and experiences regarding change, including factors that may be peculiar to the particular company. ♦

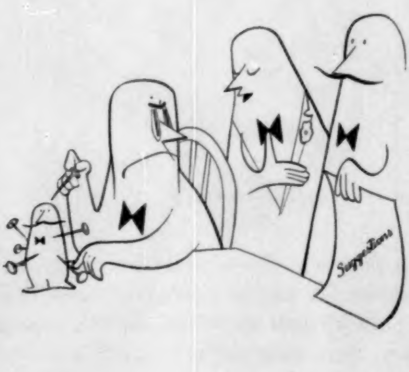
Immovable Bodies

A Gallery of Change-Proof Executives

The more things change, the more they stay the same—at least when any of these managers are around the company . . .

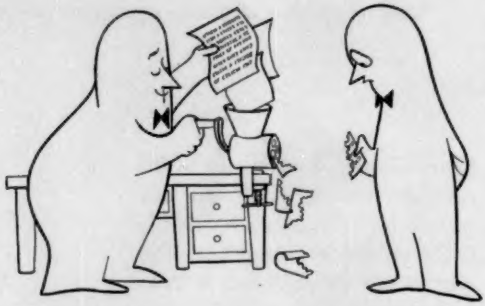
Sharpshooter. Fastest gun in the company, he can riddle any suggestion for change before the ink is dry on the memorandum. No idea is too insignificant to warrant the full blast of his withering scorn.

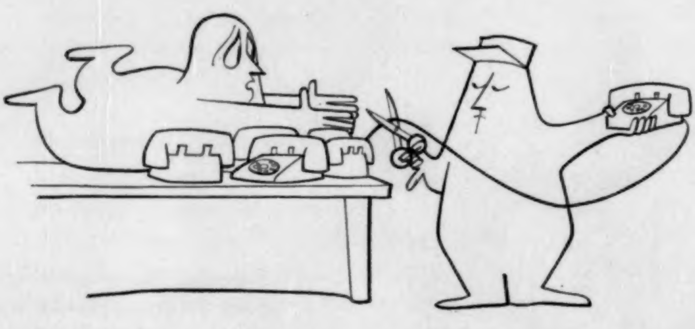




Nemesis. Never mind how good the change is—it was the idea of that certain vice president with whom he's been carrying on a running battle for years, and that's reason enough to oppose it.

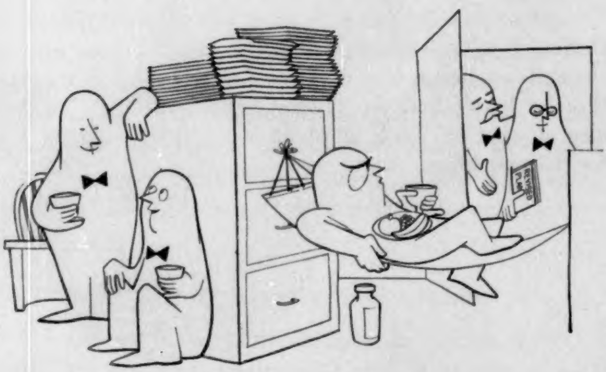
Free Translator. He's extremely flexible—with other people's ideas. Once a prescribed change has been altered to fit his own whims and methods of operating, it may bear little resemblance to the original plan —but after all, change is change, isn't it?



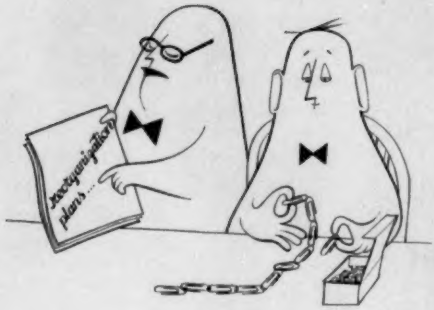


Magpie. He's a man who doesn't take his perquisites lightly. His little empire and his symbols of status have been carefully built up over the years, and if a change means that any of them must go, he's against it.

Rock of Gibraltar. Status means little to him—but *status quo* is another matter. No one knows as well as he does that the old ways are still the best ways.



Comfort Lover. All right, so his operations are inefficient—is that any reason to disrupt a smooth-running department?



Cold Fish. Oppose change? Not him—he can take it or leave it alone. But don't expect him to do anything to help it succeed.

Duffer. Don't talk about making changes—someone may discover that he hasn't had the faintest idea of what his job is all about for the past fifteen years.

■ *Drawings by* AL HORMEL

What's Ahead in Collective Bargaining?

■ **William Karpinsky**
American Cyanamid Company

DURING 1961, the traditional view of collective bargaining will come under increasingly sharp attack, as trade unions, the government, third-party participants (arbitrators, public experts, and university observers) and, in a few instances, employers attempt to expand public participation in this process. There appears to be a growing disillusionment in some quarters with the philosophy of laissez-faire collective bargaining in which the government sets broad ground rules, but economic might is right and pure self-interest is acceptable motivation. This disillusionment does not stem from any belief that collective bargaining is improper, but rather from an accumulating feeling of frustration with the degree of progress being achieved.

NEW CONCEPTS OF COLLECTIVE BARGAINING

The ineffectiveness of government in face of serious strikes, the slow growth rate of union membership, the inexorable push of wage costs on profit margins, perpetual creeping inflation, the hardening opposition of employers, the hands-off attitude of the former administration, unemployment due to automation, the

growing competition of foreign goods, repetitive jurisdictional strikes—for one or more of these reasons, the various proponents of public participation favor a redirection of collective bargaining. They consider the traditional view—that collective bargaining should be restricted to wages, hours, and working conditions on a plant, company, or industry level—too narrow and too restricted in scope, and they argue that collective bargaining in today's world must be concerned with broader concepts—social justice, prosperity and recessions, prices and inflation, national growth, foreign trade, capital investment.

History attests to the potentialities of collective bargaining to shape an economy toward desired ends. To Marx, it was a road to revolution; to totalitarians, a means of industrial discipline; to socialists, a foundation for political power; to postwar Germany, a device to democratize industry. In a democracy confronted with serious economic hardships, domestic and international, it may well be timely and appropriate to redirect collective bargaining toward a more common purpose, to eliminate its wasteful aspects, and to have it contribute toward a national policy. It would be unfortunate, however, if this declared concern for our national welfare proved to be only a device to promote special interests.

LABOR-MANAGEMENT COMMITTEES

The first step toward public participation in collective bargaining was taken with the recent appointment of a 21-member tripartite Advisory Committee on Labor-Management Policy, empowered to make recommendations to the President on policies "which will promote free and responsible collective bargaining, industrial peace, sound wage and price policies, higher standards of living and increased productivity." This group is also charged with recommending policies to increase the competitiveness of American products in world markets and to deal with problems created by automation and other technological advances.

The creation during peacetime of a committee with such a broad-based assignment is unquestionably a new departure in collective bargaining. Although the group is advisory in nature, its potential influence on wages, prices, and management-union policies, particularly in concentrated industries, could be significant. For example,

the practice of passing on the cost of unjustified wage increases to consumers in some major industries might be curbed.

Will Advisory Committees Work?

Despite the laudable purposes behind the creation of the committee, however, there is considerable skepticism about its necessity or its effectiveness. During the past several years, industrial peace (except for the steel strike) has been relatively stable, wholesale prices of manufactured goods have risen less than 0.7 per cent per year, average hourly earnings in manufacturing have been boosted 3½ to 4 per cent per year, and the cost of living has been rising at an annual rate of about 1.7 per cent. These trends mark a period of comparative stability in American industrial relations, although the possibility of improvements, especially in the wage-price sector, is obvious. As long as wage increases continue to outrun the long-term productivity increase of about 2 per cent per year, pressures for creeping inflation will persist. The figures indicate that, although manufacturing prices have tended to flatten out (at the expense of profit margins), service costs have been galloping ahead. The areas that require major attention would thus appear to be wages and consumer service prices—and in view of union strength and the diversity of service-producing industries, achieving voluntary controls in these areas is a difficult problem.

Co-management of business is a future aim of organized labor, and the establishment of permanent regional, state, and industry advisory committees could constitute a convenient steppingstone in that direction. The degree of voluntary persuasion that they might exert, and their effect on collective bargaining and prices, is somewhat speculative. It is not unlikely, however, that quasi-compulsory powers might be given to the Advisory Committee on Labor-Management Policy before too long, unless internal conflicts wreck this central committee, as they have wrecked past "summit meetings" of business and organized labor.

Amendments for Taft-Hartley

Amendments to the emergency-disputes provision of the Taft-Hartley law comprise another avenue by which increased public participation in labor matters may be accomplished. It may develop

that the Advisory Committee will not intervene directly in strike situations, but will depend upon *ad hoc* Taft-Hartley commissions to perform this function. The present single-shot injunction approach could be broadened to include fact-finding with or without recommendations, precrisis mediation panels, plant seizure, and other alternatives, on the theory that an "assorted arsenal of weapons" will keep disputants guessing about the course government might take and thereby provide a greater incentive to reach an agreement. In reality, however, when practical labor-management negotiators anticipate intervention in any form, they negotiate with an eye to setting the stage so that a compromise recommendation will hurt the least, and many responsible observers believe that overeagerness on the part of government to intervene in emergency strikes actually forestalls early settlements and prolongs strife.

Furthermore, any mediation procedures will be only as effective as the parties, singly or jointly, care to make them. Fact-finding, for example, has proven useful in settling many disputes where the parties have conscientiously negotiated to narrow differences. But it has failed to gain acceptance in a number of crippling tie-ups (airlines, railroads, tugboats) within the past few years—failed so often, in fact, that some companies have even taken out insurance against this contingency.

Unless the Advisory Committee addresses itself to the problem of restricting picketing and strikes, public participation in collective bargaining may continue to be interpreted largely as pressure by outsiders to placate organized labor.

Problems—General and Specific

The growing tendency to set up union-management committees to solve pressing problems may be expected to continue and should promote better understanding and some far-reaching solutions, particularly in those situations where well-defined areas are to be examined. Despite the merits of such intensive private explorations, however, logical solutions should not be expected to follow naturally. Emotions, protection of archaic practices, and the tendency to repeat past behavior when confronted with a dilemma are often too compelling. Outstanding success has been achieved by the joint committees at Armour and at the Pacific Maritime Association,

where programs to meet specific problems stemming from automation were developed. The operating brotherhoods and the railroad industry have agreed to a Presidential commission to study their "featherbedding" controversy and to report nonbinding recommendations by December, 1961. Agreement on this thorny subject will be needed to avoid a nationwide rail tie-up.

In the case of joint committees recently organized with such generalized mandates as the promotion of better industrial relations, there is no publicly discernible progress, although it is probable that a more cordial company-union climate will emerge. The Steelworkers-Steel Industry Human Relations Research Committee has thus far failed even to agree on a chairman. The Steelworkers-Kaiser tripartite group has announced machinery to utilize private mediation should negotiations falter this June; more far-reaching studies on such subjects as the distribution of company economic gains among workers, the public, and stockholders are still under way.

The reluctance of management to participate in joint committees with wide-ranging agendas is usually based on a belief that such consultations could lead to an encroachment on the company's decision-making responsibilities—or that they are designed to publicize or seek endorsement of union programs. This was the primary reason the Big Three auto producers again declined the UAW invitation for top-level discussion on the all-encompassing topics of automation, inflation, economic growth, and measures to promote the general welfare. At this stage of union-management development, it is clear that the joint-committee approach promises little concrete success unless the problem to be analyzed is specific, mutually recognized, and well delimited.

THE WAGE-INCREASE PATTERN

Wage increases during the coming year should show little deviation from the general average of slightly less than 9 cents per hour established over the past three years. Deferred wage commitments for 1961 are already fixed at over 8 cents per hour for nearly three million workers; it would be unlikely for general increases to fall substantially below past performance, unless the current recession should unexpectedly deepen far under 1958 lows. On the other

hand, any sharp upward move would appear to be equally unlikely, unless strenuous pump-priming should push living costs far above the anticipated 1½ to 2 per cent rise.

During the past several years, manufacturing industries have had annual wage increases averaging about 8 cents per hour, while nonmanufacturing, exclusive of construction, showed gains of about 10 cents per hour. This annual differential may account in part for the more rapid climb of consumer service costs in comparison with the cost of finished goods. It might also be noted that, while wage increases are holding steady monetarily, they are declining as a percentage of average hourly earnings. Barring wide swings from our current economic situation, this downward trend may continue slowly and bring wage boosts more in line with productivity improvements.

With individual company profit margins being squeezed and total corporate profits dipping again, management will be forced to bargain closely during the next year. The dangers of labor strife may become more frequent in the process, but basically, 1961 should be another year of relatively calm industrial relations. The major disruption, of course, may come from the automobile industry, where the UAW contracts expire in August—but even there, circumstances favor a strike-free settlement. The economic troubles of the industry are well recognized, and the presence of Walter Reuther and Henry Ford II on the Advisory Committee for Labor-Management Policy should make union insistence on an inflationary settlement unlikely. Other major industries faced with contract expirations are rubber, meat packing, machinery, and East Coast maritime, but no widespread strike action is anticipated, although there is a distinct possibility that a shipping stoppage caused by nonmonetary issues will develop.

THE OUTLOOK FOR FRINGES

Overshadowed by the more prominent "cents per hour" costs of labor settlements have been the steadily expanding scope and costs of fringe benefits. A Chamber of Commerce fringe-benefits survey discloses that these costs grew from 14.7 per cent of payroll in 1947 to 22.8 per cent in 1959—a growth of approximately 3 cents

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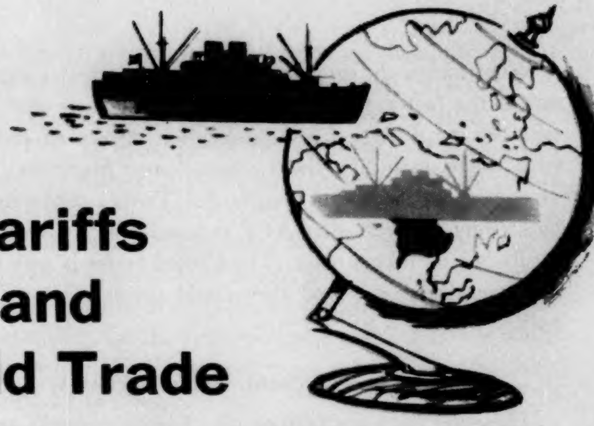


Tariffs and World Trade

A REALISTIC APPRAISAL

■ **Richard Bailey**

Director, Political and Economic Planning
London, England

WHY SHOULD BUSY EXECUTIVES in the United States bother about tariff levels in Europe? Does it matter in Chicago or Saint Louis what duty the British or French charge on an imported automobile, a machine tool, or a can of peaches? The short answer is that it matters very much—and it will matter even more in a few years' time. There are several reasons for this, two of which are of outstanding importance.

First, the United States is attempting to expand its exports to ease the balance-of-payments situation—and tariff rates obviously affect the level of exports. Second, the new trading groups in Europe, the European Economic Community (the Inner Six) and the European Free Trade Association (the Outer Seven), are changing the old tariff patterns beyond all recognition. Since these groups have a total population about half again as large as that of the U.S., and since some of the world's leading manufacturing and trading countries are among their members, anything they do to increase trade among themselves or to divert it from former suppliers is of vital importance to traders everywhere.

What makes the subject of tariffs of particular significance right now is the fact that the European blocs have speeded up their timetable for tariff cuts. This acceleration affects all countries trading with them, including the United States. Moreover, at the GATT (General Agreement on Tariffs and Trade) conference in Geneva, bargaining between all GATT members for a general reduction of tariffs is now taking place. The United States is very much involved in these discussions and they could result in more liberal trading policies.

REGIONAL TRADE GROUPS

These are the main reasons why European tariffs are important to the United States and why they are of particular interest at this time. In order to examine the current problems involved, both for Europe and for the United States, we should first call the roll of the European countries to see which tariff group they are in and how they came to be there. In addition to GATT, two main organizations are involved: the European Economic Community and the European Free Trade Association.

The European Economic Community—that is, the Common Market or Inner Six—includes France, Germany, Italy, Holland, Belgium, and Luxembourg. It contains 170 million people on the continent of Europe, with a link with some 55 million more people in the associated territories, which are mainly in Africa.

The European Free Trade Association—or Outer Seven—consists of seven countries: the United Kingdom, Denmark, Norway, Sweden, Austria, Switzerland, and Portugal. All told, it contains 88 million people.

To complete the round-up of the European countries, there are half a dozen others that are not members of either the Six or the Seven. Greece and Turkey are both hoping to join the Six, and Finland plans to join the EFTA. This leaves Ireland, Spain, and Iceland as the only three Western European states remaining outside the regional groups.

The emergence of powerful regional groups on the scale of the Six and the Seven is a very new phenomenon. Immediately after World War II, the export trade of Europe had come to a standstill. Because of shortages of raw materials and balance-of-payments dif-

ficulties, all European countries were protecting their position by quotas and other means, and tariffs were of very little importance.

The turning point came in 1947, with the inauguration of the Marshall Plan. This, in turn, led to the setting up of the OEEC, the Organization for European Economic Cooperation. The OEEC had two principal tasks: first, to remove the obstacles to free trade represented by quantitative restrictions, and second, to provide a means for regulating payment between the member countries. Quotas were dealt with under a system of percentages of liberalization: 1948 was chosen as the reference point, and member countries agreed to reduce a given percentage of quota restrictions according to a fixed timetable.

On the payments side, the European Payments Union was set up to provide its members with a mechanism for settling debts incurred in trade with each other. It lasted until December, 1958, when a majority of OEEC member countries declared their currencies convertible and the EPU was replaced by the European Monetary Agreement.

ESTABLISHMENT OF GATT

During the 1940's and early 1950's, the OEEC was the framework of Western European economic cooperation. The United States and Canada were associate members and took a lively interest in its activities. At the same time, the United States played a leading part in the Havana Conference, at which the General Agreement on Tariffs and Trade was formulated. GATT was intended as an interim measure pending the adoption of an International Trade Organization, but since that body has never been set up, GATT is now established as the only instrument for the control of tariffs on a world-wide scale.

It was not until the early 1950's that GATT began to have any direct impact on European trade problems. As more and more progress was made with the freeing of trade from quota restrictions, the low-tariff countries became increasingly discontented with their treatment. It seemed to them quite unfair that, while they shared equally with the high-tariff countries in the OEEC scheme for reducing quota restrictions, there was no move for bringing down tariffs on a reciprocal basis. The more progress was made in re-

moving quota restrictions, the greater became the anxieties and frustrations of the low-tariff countries—notably Benelux, Switzerland, Denmark, and Sweden.

THE SIX AND THE SEVEN

This division over whether to take the high or the low tariff road was the beginning of the split of Europe into Six and Seven. When the low-tariff countries found they could not make progress at that time in the GATT, they returned to the OEEC and began to work on the tariff problem on a European basis. In this, they were moving in the same direction as the powerful movement toward political federation generally called the Schuman Plan, whose first result was the setting up of the European Coal and Steel Community. This had six nations as members—the same six that were later to form the European Economic Community—the Common Market.

The European Economic Community

In 1955, the Six met at Messina in Sicily to consider the future form of their cooperation. By that time, the European Coal and Steel Community was reasonably well established. The Benelux countries, as leaders of the European low-tariff group and as members of the Coal and Steel Community, pressed for an advance toward closer economic integration. They succeeded in having a committee set up to review the whole question of economic integration and the possibility of forming the European Common Market. This review was undertaken by the Spaak Committee, and it published its report in the spring of 1956. This was approved by the six governments in May, 1956, and the movement toward a common market was launched.

The United Kingdom had the opportunity at that time to reconsider its policy and decide whether or not to go into Europe. This decision, in a modified form, had been faced when the Schuman Plan was first proposed, but the Labour government, haunted by the specter of the mass unemployment of the 1930's, had decided then that it could not hand over control of key industries to a "supranational" organization. The same dilemma had to be faced when the question of a general common market was raised—and

this time, the Commonwealth and home agriculture were additional stumbling blocks.

The European Free Trade Association

Britain therefore took the lead in proposing the creation of a free-trade area that would include all the members of the OEEC—among them, of course, the six Common Market countries. This meant that Britain was prepared to accept the free-trading implications of the Common Market, but not the measures for the integration of economic policies that made it an Economic Community rather than a straight customs union. The negotiations in what was called the Maudling Committee went on until the end of 1958, when they failed because of the fundamental difference between what the Six were trying to do and what Britain hoped to persuade them to do.

The reaction of the European countries outside the Six that had failed to form the larger free-trade area was to set up the European Free Trade Association—the Outer Seven—under the treaty signed at Stockholm in July, 1959. This was to some extent a second-best organization—a grouping of those who had failed to get into the first team. The basic provision of the EFTA Treaty calls for the removal of tariffs, quotas, and certain other barriers to trade within the Association, with the exception of agricultural products, and fish and other marine products. There is no provision for a common external tariff, no central organization for the coordination of economic policies, and no parliamentary assembly. In fact, EFTA is a sort of commercial reflex, and its organization is on a very small scale. It is rather like the motor car in the famous advertisement: "The loudest noise at 60 miles per hour is the ticking of the clock." In the case of EFTA, however, the reason for this unnatural quiet is not mechanical efficiency, but the fact that there is no motor at all.

Both EFTA and the Common Market are broadly acceptable to the GATT. They are regional groups based on an essentially discriminatory concept: The members of each group give trade preferences to each other that they do not grant to nonmembers. However, the Common Market as a customs union and the EFTA as a free-trade area are within the express exceptions from the GATT pro-

(*Continued on page* 71)

Executive Training Courses:

PROBLEMS AND PRACTICES

By S. G. Huneryager
Condensed from Personnel Administration

THROUGHOUT the business community, countless executives are locking up their offices, kissing their wives goodbye, and leaving home for one, two, thirteen, even twenty-six weeks at a time. Where are they going? Back to school—to participate in one of a rising number of management-education programs offered by universities and management groups.

What does industry expect its managers to get from such studies? Companies themselves are often confused on the subject. But a recent study of sixty large corporations utilizing this external type of training reveals four major purposes for sending executives back to school:

1. *The executive's concept of management can be greatly broadened.* Among the respondents, a great many companies said they want their executives to develop a broader social and public viewpoint concerning business and its environment. Others hope that such programs will help motivate a man to develop wider interests both on and off the job. Still others want their executives to become more aware of problems that other companies face.

2. *The manager has useful contacts with men from other companies.* At management schools, men can discuss common problems and issues facing their firms.

3. *Executives can increase their general management skills.* Most executives, by the time they attend advanced management programs, are highly competent in their specialized fields. But a competent specialist does not always make a good administrator. A lack of skill along these lines can sometimes be remedied, at least in part, by studying in the kind of management seminar where adminis-

trative and human relations skills are heavily stressed in the learning process.

4. *Executives receive important personal stimulation from attending management courses.* Many men dig into the study process with a fervor they have not shown on their jobs for a long time. This is a new experience—they are away from their jobs, some pressure seems removed, ideas and concepts are presented to them in a forceful manner, the atmosphere is free from ordinary on-the-job tensions, and traditional practices and customs are seen in new perspectives.

Selecting the Students

A fundamental problem facing a company planning for outside executive training is: Which men get chosen? Cost alone prohibits many firms from sending too many candidates. And for large corporations whose managerial membership is numbered in the thousands, the problem becomes greatly magnified.

Of the sixty firms surveyed, 82 per cent send to school those managers newly appointed to a position of increased responsibility or someone selected for promotion in the near future. About 66 per cent select technicians and specialists requiring breadth and general management know-how, and 60 per cent select men who need a refresher or first exposure to new theories and techniques in general management.

Several companies were rather blunt in stating that a man must have proven he can carry his weight as an executive before he is selected for advanced management training. Many firms cautioned, however, that selection does not necessarily imply a prospective change in status, but rather a hope that this type of training will improve job performance.

Once a manager has been picked to attend a management course, another problem arises: the danger of his selection fostering jealousy and, in many instances, actual animosity on the part of his fellow executives. He becomes a "crown prince" in their eyes, and companies may reach a point where they feel this to be a common enough attitude without encouraging it still more. Hence, they might abstain from utilizing advanced training.

Even more important, with the maze of different programs currently offered, it is extremely difficult to select the program that will do the executive the most good. Nothing can sour a man more than attending a program that is either above or below him in terms of fellow executive students and their organizational levels and salaries.

Aftermath

After a course is over, executives often will return to their jobs eager to apply some of their new-found knowledge, only to find that such ideas are not readily accepted by their associates and superiors. Therefore, a man may have to wait some time before he achieves sufficient authority to bring this knowledge to a working reality. This time gap can raise serious problems of frustration on the part of executives "left hanging"—sometimes even serious enough to prod them into looking elsewhere for a job, or at least leaving them

highly critical of their superiors and their company.

Another problem sometimes encountered with re-education programs is the tendency of some firms to shift responsibility for executive development from the company to management schools. They expect such programs to do what they do not want to do or cannot do. Fortunately, this is a minority attitude, and most respondent companies stated that external programs are simply one phase of an over-all comprehensive development process, which is principally on-the-job oriented. ◆

What Trade Magazines D'Ya Read?

FLIPPING THROUGH a heap of magazines on his desk, L. D. McDowell bent down to count a few more in his wastebasket. "I must be getting nearly 80 magazines here every month," he said with a surprised air.

The figure is all the more surprising because Mr. McDowell is not a librarian or engaged in literary pursuits. Instead, writes Richard F. Janssen in *The Wall Street Journal,* Mr. McDowell is chief works engineer of American Steel Foundries, a maker of railroad-car parts.

The magazines Mr. McDowell receives are all trade publications, aimed not at entertaining him but informing him about his business—and, through their advertising columns, selling things to his company. His reading experience is becoming increasingly common as a swelling flood of trade magazines of all sorts pours across the desks of business and professional men.

The roster of trade magazines rose to 2,178 as of the end of 1959 from 1,772 a decade earlier, according to a count by *Industrial Marketing.* New publications already are being planned for 1961, including *Family Physician,* by the American Academy of General Practice, Kansas City; *Marine Products,* by the Chilton Co. of Philadelphia, for boat supply dealers; and an entry in the drugstore field by Fairchild Publications, Inc., New York.

There's at least one trade magazine now for almost every conceivable business or occupation, ranging from *Variety* for theatrical folks to *Casket & Sunnyside* for funeral directors. Macaroni makers have the *Macaroni Journal,* and missile men have *Missiles & Rockets.* People in the metal fabricating field alone have some 60 trade books to scan, including Fairchild's *Metalworking News,* launched last fall.

Little known outside their own fields, many trade magazines count a circulation of only a few thousand copies, although some have grown to relatively fat circulations, like Hoard's *Dairyman,* with 327,000 paid subscribers. Many are sent free to readers the editors think will be interested, relying solely on advertising for revenue, but the publishers of Platt's *Oilgram News* ask $210 a year from oil men receiving their daily service.

Corporate Earnings in 1960

Condensed from
The First National City Bank Monthly Letter

IN 1960, U.S. business found itself in the midst of a new and challenging environment in which cost pressures continued to mount while competition forestalled needed price increases or, in many cases, led to price cuts. Thus, while the nation's economy attained new records in production and sales, most corporations enjoyed little or no improvement in earnings from 1959, when profits were held down by the effects of the steel strike.

This picture emerges from a recent tabulation of 1960 corporate reports made by the First National City Bank. The tabulation of annual reports issued by 2,347 companies shows combined net income of $18.5 billion for 1960, an increase of 2 per cent from the previous year. In manufacturing, earnings declined 2 per cent from 1959, despite the higher sales reported by most companies.

Intensified competition and narrowing profit margins were the rule in most lines of business. Reductions in list prices and unpublicized discounts were widespread. Because of lower selling prices, a number of companies reported that dollar volumes failed to increase even though unit sales reached new records. At the same time, the more competitive markets required additional sales efforts, especially for the introduction of new products created through long-range research programs. The most common

First National City Bank Monthly Letter (March, 1961), The First National City Bank of New York.

problem for industry, however, was the unremitting pressures exerted by rising employment costs, which continue to push higher year after year.

The profit pinch created by rising costs spurred most companies to undertake vigorous campaigns to reduce expenses by cutting inventories, streamlining operations, and increasing efficiency. Administrative expenses were a principal target, and a number of firms regrouped their organizations while making deep cuts in management and white-collar personnel. As business slackened in the second half of the year, some firms also trimmed plant and equipment expenditures. On the other hand, research and development activities were generally maintained or stepped up in order to raise efficiency and create marketable products for future sales expansion.

Mixed Trends in Manufacturing

For most of manufacturing, 1960 reports painted a disappointing picure, brightened in spots by improved results in a few individual industries. The most notable performance was turned in by the petroleum industry, as resolute efforts to pare expenses and raise efficiency since the 1958 profit slump continued to bear fruit. Oil earnings were also helped by firmer prices of refined products, and by better sales of petrochemicals and natural gas.

The steel companies, whose earnings had shown little recovery from the 1958 recession because of the strike, experienced another troublesome year. Though the industry produced 6 per cent more steel last year, profits fell slightly from the 1959 level. Three out of four reporting steelmakers suffered decreases in net income last year, and seven of the total of 42 firms dipped into red ink. In nonferrous metals, the aluminum industry saw profits shrinking mainly because of weaker prices for fabricated items. Copper producers benefited from firmer prices, relative absence of strikes, and active demand abroad.

In the automobile and parts industry, earnings were virtually unchanged, even though the auto makers turned out more cars than in any previous year except 1955. Despite higher sales, the shift toward compact cars narrowed margins. Over-all earnings of major aircraft and missile makers continued to shrink, though individual companies bucked the trend with the help of increased military deliveries. Profit totals for the group were pulled down by heavy write-offs for commercial jet airliners by leading plane makers.

Sharp price competition, especially in appliances, led to lower earnings for the electrical equipment, radio, and television group. In the electronics industry, however, a large number of specialized firms continued to show growth in sales and earnings.

Diversified Machinery

In the diversified machinery field, results were mixed, but the general trend was downward. Machine tool makers received increased orders from abroad last year, domestic business remained relatively slack, and only a few companies managed to show improvement in earnings. Manufacturers of textile machinery, on the other hand, enjoyed one of their better

years, with a marked upswing in profits reported by leading firms. Makers of farm and construction equipment saw their earnings reduced as heavy inventories forced production cutbacks for farm machinery; the domestic market for construction equipment was sluggish, but brisk demand from abroad bolstered earnings of some producers.

Stiff competition and some weakening of prices affected earnings in the chemical industry, as most of the major firms experienced slipping profits. Price softening also appeared in some pharmaceutical lines, but a number of drug makers managed to score substantial gains in earnings. Soap and cosmetics manufacturers generally had a profitable year.

The drop in new housing starts last year cut deeply into sales and earnings of industries producing such materials as lumber, plywood, glass, gypsum, and plumbing supplies. Intense competition in the replacement tire market led to low selling prices and reduced profits in the rubber industry. Rivalry was equally keen among producers of rayon and nylon tire yarns, whose earnings also suffered as a result. The textile industry slipped below its 1959 performance, with declines centering among rayon producers and carpet makers. Clothing manufacturers posted better overall results for the year, but earnings in the shoe industry declined with lower production.

Earnings of food manufacturers slipped only slightly from the preceding year. But the decline was somewhat steeper among beverage firms, partly owing to a cool summer that held down consumption. In the tobacco industry, small declines predominated, but these were offset by the heftier gains of a few producers. ♦

Engineering Professionalism: Two Views

WHILE ENGINEERS AND MANAGERS in industry pretty well agree on the ingredients of engineering professionalism, they do not always see eye to eye on what is being done—or what should be done—to advance the concept.

A recent survey conducted by the Opinion Research Corporation for the Professional Engineers Conference Board for Industry (and published in cooperation with the National Society of Professional Engineers) uncovers these differences of opinion:

- Fifty-six per cent of the managers surveyed feel their companies recognize the professional status of engineers to a "very high" degree, but only 26 per cent of the engineers agreed. Most engineers (51 per cent) felt their professional status was recognized by companies to only a "moderate" degree.
- Almost 70 per cent of the managers surveyed feel that management shows "genuine respect" for engineers, but only 36 per cent of the engineers agree with this statement. Ninety per cent of the managers rate engineers among the most valuable employees, but only 52 per cent of the engineers feel that they are regarded this way.

Needed— Specialization in Selling

By George N. Kahn
and Abraham Shuchman

Condensed from Harvard Business Review

THE DECADE AHEAD promises to be more intensely competitive than ever before. A rising flood of new products and imports, a growing saturation of markets for present products, the spread of automation with its enormous output potential — all these trends emphasize a compelling need for the strongest possible marketing programs.

For many firms—particularly those selling industrial products or selling consumer goods through distributors —the central role in marketing has been and will continue to be played by personal selling. Unfortunately, sales organization today is mainly divided—as it was a generation ago— into territories, products, and sometimes customers. Why has specialization in personal selling stopped there? Why has little effort been made to apply to it one of the basic principles of mass production: specialization by task?

The Salesman's Two Jobs

The failure arises from lack of awareness that salesmen are called upon to perform two very different jobs—*sales maintenance* and *sales development,* each involving different techniques and problems — and that the difficulties of reorganizing for specialization in these two jobs may be more than balanced by improved sales performance.

Creating Sales

The field salesman performs two important functions. On the one hand, he is engaged in a holding operation: He must preserve and, if possible, expand the volume of business that current buyers do with his firm. This is sales maintenance; its objective is the *creation of sales* from people who are already customers. Maintenance selling, basically, is service. There are several requirements for providing this service:

- The maintenance salesman dealing with an industrial product must know the applications of his product better than his customer's own technicians do.
- He must know the engineering behind his product and the possibilities of complementary and competing products.

Harvard Business Review (January-February, 1961), © *1960 by the President and Fellows of Harvard College.*

• He must understand his customer's processes and operations so well that he knows precisely where his product can and cannot be used, and how it must be used to yield maximum benefit.

• The maintenance salesman working among distributors and dealers must also be able to spot weaknesses in their operations, come up with practical suggestions for eliminating these weaknesses, and help provide the necessary skills.

Creating Customers

On the other hand, the field salesman is also engaged in a conversion operation: He must obtain new buyers for his firm's products. This is sales development; its objective is the *creation of customers*. To achieve this goal:

• The development salesman must identify those firms in his territory which are worthwhile to convert, and identify the influential executive in each.

• He must establish with these executives a relationship in which they see him as a source of possible help in solving their own companies' problems.

• He must motivate prospects by helping them become aware of a need for change, by fostering a constructive discontent with things as they are.

• He must transform this readiness to change into an actual intention to change.

• The development salesman must, finally, convert his prospect's action into habit—to stabilize the change he has created.

This requires that the development salesman be a creative strategist, capable of designing and implementing original, effective sales approaches, and possessing skill in dealing with prospective customers and overcoming their resistance. He must be able to mobilize the skills and knowledge of specialists, and to coordinate and control the work of others.

Sales Development Suffers

When one field salesman is charged with the responsibilities of both sales maintenance and sales development, sales maintenance usually drives out the other. Why? Because sales maintenance allows the salesman to go where he is known and accepted, and where the probabilities of achieving his goals without undue exertion are high. Sales development, on the other hand, often requires him to enter an unfriendly atmosphere in which rebuffs prevail and where the probabilities of achieving his objectives, despite considerable effort, are small. Being human, the salesman will prefer to concentrate on sales maintenance and avoid the more difficult task.

Thus sales development suffers. Further, men with the skills necessary for successful sales development are born, not trained; they are scarce; and they are in such demand in other occupations that relatively few ever become salesmen. How, then, can strong market or sales development be obtained in the face of a shortage of men with the proper skills?

The solution is to set up a specialized development task force within, or auxiliary to, the field sales department. This eliminates the high costs which are incurred when men with the gifts required for the vital

but trying job of sales development are given responsibility for sales maintenance which they can do almost without half-trying, while other men who are not sufficiently gifted to develop markets but who can perform sales maintenance skillfully are called on to work at development and are unhappy while doing it. Specialization by task assures both that adequate attention is given to market development and that more efficient and fuller use is made of available talents and skills. Without question, therefore, it can result in a significant increase in the productivity of personal selling.

Problems of Specialization

Certain difficulties must be overcome if this increase is to be realized. One problem is that of achieving a transition from development to maintenance selling which is smooth and does not disturb the customer-supplier relationship. This requires, of course, a harmonious working relationship between the two salesmen while they are calling on the customer together to set the stage for the transfer of responsibility. The customer must not feel he is being shunted aside; if anything, he must be assured that he will be getting even better service and attention than before.

Another problem is the impact of specialization on those men who will be restricted to maintenance selling. By the very nature of their qualifications and their task, these men cannot be rewarded as well, nor be permitted as much freedom of action, as development salesmen. Some bitterness will arise, and it will have to be allayed—especially when customers are being transferred.

A third problem sometimes appears when specialization is achieved via an auxiliary development task force rather than by the restructuring of the existing field sales department. Some sales managers, because they feel themselves threatened by the new vitality which specialization gives to their sales operation, may attempt to sabotage the innovation.

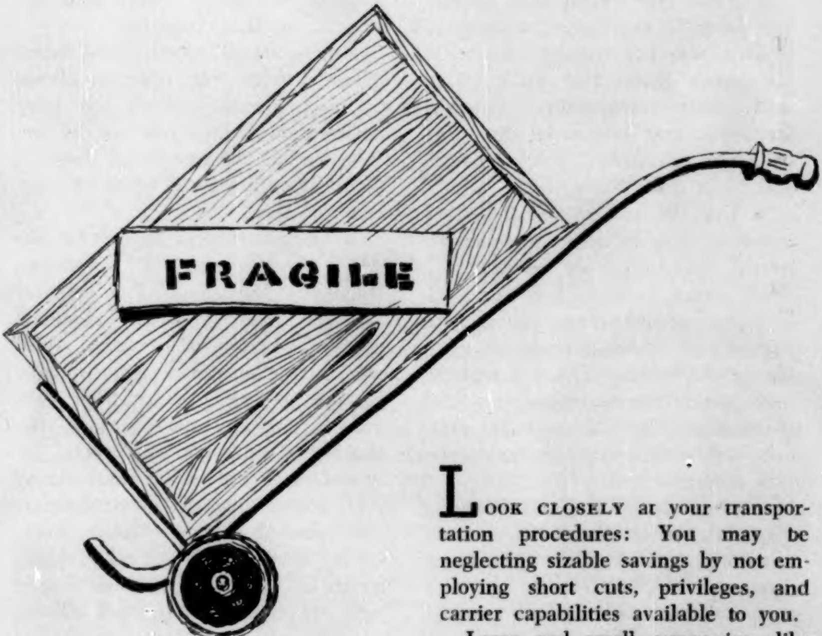
Finally, it is not easy to establish standards of performance for development salesmen. The development process often requires considerable time before there is a pay-off; a salesman, therefore, may have long periods when his output of new accounts is abysmally low. He may, nevertheless, be doing such a highly effective job that his output will soar eventually. It is difficult to determine during these low periods whether or not the salesman's performance is adequate. And it is difficult to establish monthly or quarterly quotas to measure performance.

Top Management Attitudes

As a result, specialization requires a change in top-management attitudes about personal selling organization and about the costs and performance of development work. Management must recognize that expenditures for market development are the close and supporting kin to product development expenditures. Management must be ready to invest in the market in the same way that it invests in plant and equipment or research and development. It must recognize that creating and using a specialized development sales force is a similar investment in the future of the company. ◆

twelve ways to cut shipping costs

Condensed from Management Methods



LOOK CLOSELY at your transportation procedures: You may be neglecting sizable savings by not employing short cuts, privileges, and carrier capabilities available to you.

Large and small companies alike have benefited from these twelve hints for more efficient shipping, adapted from "35 Ways to Reduce Your Shipping Costs," by Raynard

F. Bohman, Jr., and published by the Institute of Business Research, Inc.

• *Avoid fancy misnomers.* Some manufacturers describe a commodity from a sales viewpoint only. This "dressed up" description can throw its identity and classification into a higher transport bracket. Check to see how the description will affect shipping charges. And be sure you use the carrier's terminology, not your own, on bills of lading. This will lessen the likelihood of your being charged more than the lowest rate applicable.

• *Audit your freight bills.* Despite care taken by the carrier, undetected overassessments sometimes occur. Experience shows that firms which audit their transportation invoices frequently save substantial sums. It's up to you to discover any overcharges and file a claim for refund.

• *Use the stop-off privilege.* As many as three en route stop-offs for partial unloading are allowed by many motor carriers. For each, except the last unloading, only a nominal stop-off charge is made. By combining shipments for a few customers who are intermediate to your final destination, you can usually come out well ahead on total transportation savings.

• *Minimize product bulk.* There is a special, low rate for shipping many items in a knocked down or unassembled state. To classify for this economy rate, your product knocked down or telescoped must occupy no more than a certain portion of its normal setup cubage. Sometimes a small change in design will qualify an item to travel at the lower rate.

• *Reduce package weight.* Many new lightweight materials equal or exceed the protective qualities found in traditional packing materials. Investigation of new developments may turn up something that can substantially reduce the weight of your packages. A gross weight reduction often slashes shipping costs.

• *Use carrier-prescribed packing.* In some cases, you can save up to 50 per cent in less-than-truckload charges if you use packaging prescribed by the carrier. Further, some articles take lower rates when packed in boxes or crates, rather than shipped loose or in bundles. Check your carrier for similar economies.

• *Separate differently rated items.* When articles with different classes or rates are shipped in the same package, the highest rate usually prevails for all articles. When possible, pack differently rated items in separate packages.

• *Stagger pickups throughout the day.* By spreading or scheduling shipments throughout the workday and workweek, you can eliminate costly idle periods of personnel. With efficient pickup scheduling, you may be able to reduce the size of your present shipping quarters and the number of shipping employees.

• *Consolidate small orders.* Many firms process several individual orders the same day or the same week. Often, many of these small packages weigh less than the minimum weight rate. By consolidating small orders, you can often avoid this excess assessment.

• *Use mechanical aids.* You can speed up expensive loading and unloading time by utilizing efficient

materials-handling devices and equipment. This speedup usually requires fewer workers. And these mechanized aids usually reduce damage to merchandise. Are you using the best methods and machines now?

• *Don't pay for air.* Are you loading on enough volume to avoid paying the minimum charge for weight not shipped? If, for example, your shipment weighs only 26,000 pounds and the carrier minimum is 30,000 pounds, you're paying for 15 per cent more transportation service than you get. You could ship as much as 4,000 pounds "free" in this case.

• *Assign traffic responsibility.* Probably the most effective means of cutting shipping costs is continuous application of transportation cost-control techniques. If you spend $100,000 or more on inbound and outbound transportation, a full-time traffic manager is likely to be warranted. If your volume is less, assign traffic responsibility to one individual as a part-time job, or retain a reliable traffic consulting firm. ♦

Keys to Total Service

MORE AND MORE firms that sell to business are realizing that one of the best ways to increase their own sales is to help customers improve theirs. Here are some of the ways this is being done today, reported by *Salesweek*:

• *Solving problems.* Manufacturers and wholesalers are sending their salesmen and technical experts into the field to seek out customers' problems, then bringing their corporate resources and wider knowledge of the business to bear on them. Frequently they can find and solve problems that the customer never thought of as problems—ones that could be eliminated by new products or improved business methods.

• *Sales training.* Many manufacturers and distributors are training their customers' salespeople, not merely in knowledge of their products and special techniques for selling them, but in all-round salesmanship, on the principle that anything that helps to improve the customer's business operation will eventually come back to them in increased sales.

• *Management assistance.* Wholesalers have full corporate staffs and their executives have broad knowledge of modern business practices in their fields. They can give invaluable advice and assistance to customers who have special problems in accounting systems, inventory control, financial management, personnel, or any of the many areas which are common to both small and large businesses.

• *Total service.* In fields where large wholesalers or distributors deal with small independent retailers, enterprising suppliers are offering their customers all the management services that large chains give their stores, from finding locations and designing the buildings to keeping books.

HOW INDUSTRY IS USING

Packaging Research

Condensed from Consumer Packaging

FOR ANY COMPANY selling products to the consumer, packaging research is a must. It is an important tool for developing and maintaining a package which reflects your company's total marketing concept to consumers and retailers alike.

Packaging research's first function is to help you recognize a packaging problem—*before* it becomes a problem that everybody, including customers, can recognize. The problem may be inadequate protection of the product or a package shape which creates unfavorable connotations in the minds of consumers. It may be package graphics that fail to communicate a marketing concept or it may be the kind of package that will require major and expensive production line revisions. It may be the result of the activity of competitive packages. Whatever the packaging problem may be, it is the function of package research to recognize it while it can still be effectively and economically solved. In general, there are four important types of package research:

- *Packaging materials research* studies physical properties of materials and how these materials perform when used with specific products.
- *Market research* studies needs and desires of consumers and retailers to determine what types of packages will be acceptable.
- *Graphic design research,* which is a part of market research, is often the only form of it used, where the type of package has been previously determined for any number of valid reasons.
- *Engineering research* determines requirements for adapting the package to existing production lines or for adapting them to the package.

Who Does the Job?

Who performs the necessary packaging research? There are four pos-

sibilities: the product manufacturer, the packaging supplier, outside packaging consultants (technical, marketing, and design services), and the company's advertising agency.

Since the product manufacturer must make all final decisions concerning solutions recommended by packaging researchers, his is the key role. In order to have an effective and rewarding packaging research operation, he will have to analyze and decide, on the basis of company goals, who will perform the various aspects of the research. His broad decision must be based on the goals of the packaging research, financial capabilities of the company, abilities of company personnel, and potential for company growth and profitability through packaging research. If the reasoning behind such a decision is at all unclear, then the decision will still be made—but impersonally and automatically, with possible detriment to company goals.

Organizing Package Research

Generally, there are three ways to organize packaging research activities:

- Through a committee.
- Through a full-time coordinator and a committee.
- Through a full-time packaging research department.

The Committee

Using a committee involves calling meetings, at regular or irregular intervals, of representatives from departments affecting or affected by packaging research. The committee is run by one of the representatives who acts as a part-time coordinator to arrange the meetings but who has no authority or responsibility for directing the over-all packaging research.

Committee and Coordinator

The committee is not a decision-making body, and many times therefore it can accomplish nothing concrete. It does have value, however, in impressing the people involved with the significance of packaging research to company operation, and it leads the way to the second type of organization—a full-time coordinator working with the committee. At this time, the committee may acquire some authority to make decisions that may then be followed through by the packaging coordinator.

The Department

The third type of organization is the packaging research department, set up independently with authority and responsibility to develop packages, subject to top management's final decision. It may consist of only one person or several, but it has access to all available research services of the company and of outside sources, and has authority to coordinate and direct them within its own research projects and goals.

When this department's goal is to develop a package which reflects the total marketing concept, it acts as a central agency for collecting and evaluating solutions and is the sole source of packaging recommendations to top management. It directs and coordinates the necessary research, it determines who will do it, and it economically justifies both its selection of the research to be done and who is to do it. ♦

Communicating with Employees:

How management sells its ideas

Condensed from Nation's Business

COMMUNICATING effectively with employees is very much like selling ideas. And, as in any sales effort, management must accurately assess the market's needs and prepare a sound plan for fulfilling them. This is the conclusion reached by the Opinion Research Corporation of Princeton, N.J., after an intensive study of communications in firms throughout the country.

As part of its study, ORC probed several commonly held assumptions about communications in industry. One assumption, for example, is that employees are not really interested in company affairs and that they have to be tricked and humored into listening to what management has to say. The study found, however, that information about the company's progress and prospects competes successfully for workers' attention with chit-chat, jokes, and bowling news. A large majority of employees—regardless of job, tenure, or office location—say that it is important to be kept up to date on company activities. They want the answers to such questions as: Where is the company going? How do government regulations affect us? What is management doing to keep jobs secure? What new job openings are there? How is the company doing financially?

Employees' information needs closely reflect the company's particular situation, the study indicates. In a firm with a highly cyclical business characterized by waves of hiring and layoffs, 73 per cent of the workers wanted more information on job se-

curity. At a company in the competitive electronics field, 82 per cent wanted to know "how well competitors' products compare with ours."

Disagreement on Priority

Another common assumption is that management knows best what information employees should receive. The study found that in one company, six of the ten topics ranked low in importance by management are among those on which employees request more information: company product research, management thinking on political issues, causes of inflation and its remedies, work of different company locations, effects of foreign competition, and economic education.

Managers themselves often disagree on which topics deserve priority. In one corporation, for example, executives with top responsibility for communications were asked to rate eighteen topics for priority. The executives split into opposite camps on eleven of them.

Many managements believe that all employees have the same information appetites—that one bill of fare suits them all. The study found that the one-market approach leads to watered-down communications. Employees actually constitute a segmented market, and company publications that provide something for everybody usually score about 40 per cent readership. On the other hand, one major manufacturer shows 67 per cent readership of a monthly magazine specifically prepared for its white-collar and professional workers. In recent years, some companies have devoted more attention to employee information markets that cut across the organizational structure. They offer special bulletins for supervisors and foremen, publications for salaried employees, and technical magazines for engineers.

Competing for Attention

ORC's research reveals that management is constantly competing with many other information sources for a share of the employee's thoughts. What he sees on television, reads in newspapers or magazines, or hears discussed by friends has an important influence on what he thinks about such matters as politics, profits, labor relations, or executive honesty. Particularly when it comes to controversial issues, management cannot assume that workers entering the front gate forget everything they hear on the outside. Management, however, has a great competitive advantage in that it can supply a meaningful interpretation of companv activities.

Employees, in fact, say that they prefer to get their information about the company through management channels. Few would rather get their facts from union sources, the grapevine, or the local press. When management fails to supply the desired information, however, they quickly turn to other sources.

Planning an Effective Program

How can a company take advan tage of these research results to pattern its employee communications for top effectiveness? To score with workers, management must meet some of the same conditions that it meets in marketing its products.

• *Find out what the market wants.* Determine the information needs of the major formal and informal employee groups in your company, and determine whether these needs are currently being met.

• *Take stock of management's information objectives.* In companies studied, less than half of the communications staff managers knew of the existence of specific information objectives. Coordination of ideas is impossible unless the communications team keeps the dominant ideas constantly in view. Management must decide what image it wants workers to have of the company, its management, and its employee relations. Management's plan to get this image across must mesh with the employees' information needs; it must be flexible enough to allow for revisions when changing conditions occur; and it must be thoroughly understood by the communications staff.

• *Capitalize on employees' shopping habits for particular types of information.* Workers look to different channels for different facts. The study showed a remarkably uniform pattern: For information on future plans of the company or work at different locations, employees rely on the company publication; for facts about company policies or the place of the individual in the corporate picture, they look to their supervisors; to learn about benefit plans, they rely on meetings and the company publication. It is good strategy to market the information where the employee expects to find it.

• *Promote the availability of information.* Because employees have different needs, it is difficult to write a message which contains all the facts desired by all groups. Workers can be told, however, where they can get additional information.

The underlying philosophy of this marketing concept of communications is that the employee is an intelligent person who makes up his own mind. In doing so, he exercises freedom of choice over his information intake, depending on his personal need. This approach recognizes that workers are moving rapidly toward higher educational achievement, more independence in thinking, and an increasingly professional and technical character. ♦

Employee Benefits: $18 Billion in 1960

U.S. PRIVATE INDUSTRY paid an estimated $18 billion in 1960 to provide employee pension, welfare, and unemployment benefits, the National Industrial Conference Board reported recently.

Last year—the 25th anniversary of the Social Security Act—employers contributed $5.2 billion for old-age, survivors, and disability insurance and $2.9 billion for unemployment insurance. These two social security components accounted for 45 per cent of employer payments for employee security. Another 47 per cent was accounted for by private pension and welfare funds, to which employers contributed $8.5 billion in 1960. The remainder consisted of compensation for injuries.

The Growing School Market

By Richard Rutter
Condensed from The New York Times

FIVE BILLION, six hundred million dollars is a lot of money. It is the amount that President Kennedy has proposed in federal aid to education in the form of grants and loans for school construction, teachers' salaries, and college scholarships.

But this sum represents only a small portion of the amount that actually will be spent for education in the coming years, regardless of the government's role. The education market, strictly from the commercial view, is already a major growth market, and the biggest period of growth is yet to come.

This year, for instance, enrollment in public, private, and parochial schools totals about 43 million; within a decade, the number will swell to 55 million or more. In 1960, outlays for new educational construction amounted to some $3.5 billion; this year, the figure is expected to rise to almost $3.7 billion.

Construction is only part of the education picture. Expenditures for equipment run into hundreds of millions of dollars a year. In its annual index of educational equipment, *American School and University* magazine lists more than 450 categories, ranging from acoustical materials to voltmeters and washroom hand-dryers.

Companies engaged in the education market include some giants like United States Steel Corporation, Radio Corporation of America, and Libby-Owens-Ford Glass Company, as well as many smaller concerns like Metwood Manufacturing Company (table tennis equipment), MJM Man-

ufacturing Company (automatic vegetable peelers), and Astro-Dome, Inc. (astronomical observatory domes).

Acres of Campus

School surroundings are included in the coming boom. Many new public schools, for instance, occupy a site of twenty or more acres, while the average size of college campuses has been estimated at 600 acres. Some even have their own ice-skating rinks. This development is reflected in the business of the Toro Manufacturing Corporation, maker of power mower equipment. Some 14 per cent of Toro's institutional sales are now in the educational field.

The design of school buildings has gone through a revolution of its own. The accent is on light and brightness, with an intensive use of glass. The new Linton High School in Schenectady, N.Y., situated on a 37-acre site, consists of eight buildings joined by glass-walled corridors; the classrooms have exterior glass walls, and trees shade many of the windows. Libby-Owens-Ford supplied the glass.

Inside the new buildings, the accent is on flexibility. Classrooms are designed so that they can be expanded quickly to various sizes; walls are movable; furniture can be quickly shifted; and space is kept free for teaching machines, visual aids, and mobile laboratory equipment. Soon the old-type classroom of fixed rows of desks in a cramped space may be as obsolete as the pot-bellied stove in the center of the room. The day of completely air-conditioned schools is already here, though mostly, so far, in the warmer climes.

The standard basic materials now going into schools will be used in the foreseeable future—steel, concrete, brick, and so on. But other materials are bulking larger in the educational market. Fiberboard, for instance, is being used in desks and tables. Laminated wood, ceramic tile, cork, and plastic materials are gaining in popularity. Radiant and electric heating are more common. Black chalkboards have been supplanted by green, brown, blue, and even pink shades. Folding or telescoping bleacher seats replace the fixed type on outside play fields. Closed-circuit television for instruction, linking classrooms, has become almost routine.

Electronics in the Class

The electronics industry has staked out a big foothold in the education market. Students learn how to use the latest type of office equipment; they take apart and put back together "baby" computers; they use high-fidelity devices; and they are instructed by teaching machines.

Perhaps the most elaborate of the new devices is the electronic learning center or language laboratory produced by such companies as the Radio Corporation of America, Philco Corporation, and American Seating Company. Students sit in booths equipped with headsets and microphones. A teacher, at a central console unit, activates a language tape for transmission to each student. The student repeats what he hears and instantaneously hears his own response through the headset. This may be recorded and played back to each student individually. The teacher can also monitor each student without disturbing the others. ♦

Psychiatrists on the Assembly Line

By Jerome Ellison

Condensed from The Saturday Evening Post

ONE FACTORY WORKER who had been an outstanding performer on the production line was promoted to a foreman's job. He promptly displayed anxiety symptoms: irritability, poor concentration, hand tremors, and unexplained absences. Some days he was "so scared he couldn't enter the building." When he was demoted to his former job for this unsatisfactory record, he shed these symptoms and was again an efficient, punctual worker. This promotion-and-breakdown cycle was repeated four times in two years. Management finally asked him to consult with the plant psychiatrist. The doctor's advice: Leave the man on the production line, where he is happier.

Emotional problems of this sort, and a wide variety of other sorts, add up to a staggering personnel problem for U. S. industry. An authoritative estimate attributes 50 to 80 per cent of all employee absenteeism to mental disturbance. The well-known figures on mental illness—more than 700,000 Americans now reside in mental hospitals, one person in ten will spend part of his life in one, and 2.5 million were treated for some emotional disorder last year—are particularly sinister when applied to industry. Erosion of mind and spirit in the productive labor force strikes the country where it hurts most.

The industrial psychiatrist is, so far, management's most effective answer. A growing number of companies are finding a place on their medical staff for this specialist—among them, United States Steel, IBM, GE's missile division, Eastman Kodak, Du Pont, International Harvester, Caterpillar Tractor, Esso Standard Oil, and Jones & Laughlin Steel. American Cyanamid and Metropolitan Life were pioneers in the field.

The plant psychiatrist's job is fourfold. He prescribes for the mentally sick (casework), sees to the mental tone of the whole establishment (group dynamics), tends to the aftermath of illness (rehabilitation), and tries to keep people from getting emotionally sick in the first place (educational prevention).

Casework always involves a sprinkling of the seriously ill—the psychotic—who can sometimes be spotted even by the untrained. A worker

in a large plant under government contract recently asked to be transferred to the outer-space division, citing his "obvious qualifications"—he was "in continuous communication with Mars by mental short wave." An employee in a tractor factory climbed down from his ladder and, without explanation, began flailing another worker with a hammer. A spotwelder, touched gently on the shoulder by a passing safety man, leaped wildly to his feet, knocked the safety man down, raced home, ordered his wife from the house, and smashed all his furniture.

Psychosis and Neurosis

"Symptoms as extreme as these," says Dr. Ralph Collins of Kodak, who has 38,000 people under his professional surveillance and is chairman of the American Medical Association's Committee on Psychiatry in Industry, "usually mean an advanced stage of illness and lengthy treatment. It's standard procedure in psychiatrically staffed companies to have a diagnosis made by the staff physician and psychiatrist, then to refer the sick employee to an outside doctor for treatment, with the company sharing expenses according to the health plan in effect."

By far the larger percentage of cases are the more subtle neurotic ones: The worker is faring poorly, and is confused within himself and in his relations with associates. Signs of derangement are not so obvious, or are not present at all. Neurotic cases usually have in common a desire to escape anxieties—certain kinds of unpleasant feelings.

The way people conceal their real motives—even from themselves—was shown recently when a plant psychiatrist was asked to investigate job complaints. Taking five random grievances—about shop lighting, poor scheduling, glare, excessive heat, and lack of departmental cooperation—he found that only one grievance could be blamed on actual plant conditions. These were the roots of the others: An executive was neurotically concerned about inheriting his father's heart disease and his mother's mental illness. A foreman was despondent with guilt over his wife's mental depression, which had led her to threaten the lives of their children. A young salesman couldn't decide which of two willing girls he should marry. A stenographer was panicked at the possibility of losing her fiancé.

Accidents can be an indication of emotional ill-health. The psychiatrist sees accidents and suicides as results of strong unconscious desires of people to hurt or punish themselves. By bringing such tendencies to light, the doctors believe they can substantially cut industry's $300-million-a-year accident bill.

Heroism or Illness?

A case illustrating such a tendency arose in a plant where radioactive materials are handled. When a steel drum of "hot" liquid waste began spurting at the bung, standard emergency action was followed: The drum was rolled to an open space and a safety officer prepared to riddle it with rifle fire to relieve the explosive pressure. At this point, a young physicist pushed the rifleman aside, seized a wrench and, at great risk, removed the bung. Bystanders applauded his

"heroism," but the plant superintendent advised him to report for consultation—he had needlessly risked a serious accident.

In consultation, the psychiatrist discovered that the episode was only one of a series of death-inviting risks. Three times that morning the young scientist had tried to commit suicide by auto, and each time had lost his nerve. Sooner or later he would have made it, the psychiatrist reported—he was suffering from a hidden suicidal depression brought on by the fact that, the day before, he had learned that his youngest child had leukemia. Psychiatric treatment restored him.

Psychosomatic Illness

The largest single category of cases to come to the attention of the industrial psychiatrist, says Dr. Harold Steinberg, assistant medical director at International Harvester, is that of psychosomatic ailments—where unacknowledged anxiety becomes physical illness. For example, one man was referred to a company medical department for backache. This improved under diathermy, but was replaced by stomach pains. These were relieved by internal medication, but were followed by headaches. When aspirin cleared these up, tremors took over. The worker thought a transfer to another shift might help, but this brought a return of the old backache. The cycle began all over again and was ended only when the underlying emotional disturbance—in this case an unconscious desire to control other people—was at last brought to heel with psychiatric treatment.

The ways of the unconscious often seem strange to the waking mind. A foreman in a large manufacturing plant developed so severe a case of continued vomiting that he had lost weight, become seriously dehydrated, and was near exhaustion. No physical cause could be found, and he was sent to a hospital for psychiatric diagnosis. The trouble was soon located: After many years as a union-shop steward and "workers' man," he had been promoted to foreman—a job he thought of as strictly "company man," and which he literally could not stomach. When he was shown that he could handle his new job and still help advance the workingman, his vomiting stopped.

How does the psychiatrist heal? "It is usually people who have made people sick," explains Dr. O. Spurgeon English of Temple University's School of Medicine, "and it takes people to make them well." The doctor first assures the patient that his only motive is to help. Then, together, they track down the source of the patient's anxiety—in the past or the present, at home or on the job. This done, they work to reduce it.

Reducing Anxiety

This may mean a new arrangement at home—in one case, part-time care was arranged for a wife whose invalidism had literally worried her husband sick. Or it may mean an adjustment on the job—in several cases, neurosis-breeding company tactics have been revised. Or it may call for an adjustment of inner attitude—the patient is helped to see that the harried foreman of his adult life is not really the same as the bullying parent who overclouded his boyhood with angry fear.

How long does it take to get well? Dr. Temple Burling, who directs the training of industrial psychiatrists at Cornell University, says the average case takes two and a half one-hour sessions. Dr. Alan McLean of IBM says that a surprising number of employees with uncomplicated problems are helped to a considerable extent in one interview. When the difficulty lies deeply buried in the unconscious mind, says Dr. Harry Wagenheim, associate in psychiatry at Temple University and a practicing psychiatrist, treatment may require one to five years. The most serious cases spend this interval in a hospital. Very often, however, employees live at home and continue normal activities even during extended treatment. ♦

Standard Financial English: A Glossary

A NEW LANGUAGE has come from the financial community. It's called standard financial English, and its vocabulary consists of the expressions and nicknames used by traders on the New York Stock Exchange for the companies in whose stocks they are trading.

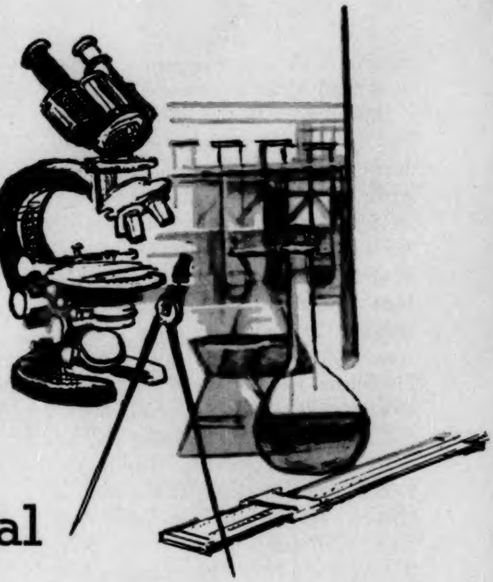
For example, reports *The Exchange,* Disney Productions is known as Mickey Mouse and Ford Motors is called Tin Lizzy or Flivver. Big Boy is a nickname for Superior Oil Company of California: It is the highest-priced stock listed on the Exchange.

The largest single source from which traders derive nicknames is the high-speed ticker which sends out accounts of transactions to brokerage offices across the country. Ticker symbols which correspond to short corporate names are in high demand and frequently form the company's nickname. Pet milk is assigned the symbol PET, for instance.

Although not all such symbols are as easily identified with their companies, many correspond closely enough to suggest nicknames. One of the best known in this category is Clara Bow for International Telephone & Telegraph, derived from its symbol IT and reminiscent of the silent motion picture actress of the 1920's known as the "It Girl." This derivation may mean little to younger brokers, but they have no difficulty in making the connection between the Welbilt Corporation and its nickname, Marilyn Monroe.

The list contains many examples of names which have been coined merely to match the letters making up the code symbol. Thus, TG, symbol for Texas Gulf Sulphur, becomes Tough Guy; UK for Union Carbide, Ukelele; WM for Western Maryland Railroad, Wet Mary; and FW for Fairbanks Whitney, Fuzzy Wuzzy.

In some instances, the three-letter symbol spells a common word and the company becomes known by it. In this category are GUY, symbol for General Public Utilities and its resulting nickname, Guy; and PEG for Public Service Electric & Gas Company of New Jersey. Other symbols are suggestive, such as Glo-Worm which is derived from Corning Glass Works' symbol, GLW.



THE BOOM IN Technical Service Laboratories

By Melvin Mandell

Condensed from Dun's Review and Modern Industry

INDUSTRY'S NEED to win—and hold—customers is finding expression today in a new building boom: the construction of technical service laboratories. More and more companies are building special facilities to demonstrate how their products can solve customers' technical problems. And tech service labs in many firms are taking the offensive and creating entirely new products for wooing new customers.

Among companies now successfully operating technical service (or "use-research") labs are producers of metals, carbon, plastics, synthetic fibers, rubber, packaging, pulp and paper, and food-processing equipment. Other industries are beginning to climb on the bandwagon and build these profit-generating facilities.

Separate buildings for technical service are comparatively new in U.S. industry. For decades, companies handled any technical complaints or requests for technical or design assistance in the company research lab or engineering department. Many, in-

cluding such large companies as Monsanto and Allied Chemical, still do.

But as tech service grew in volume and complexity, it began to get in the way of regular research work, and many manufacturers started to think of technical service as a specialty in itself. Dr. Arthur B. Steele, manager of technical service for Union Carbide Chemicals Company, cites one reason: Customers are often competitors, particularly in his industry, chemicals. He believes it makes sense to keep tech service and research work far apart, in order to avoid the embarrassment of barring visiting customers from confidential research activities. The four-million-dollar facility he manages is in Tarrytown, N.Y., a long haul from the company's research lab in South Charleston, W. Va.

Proximity Can Pay

Not all executives agree with Steele. Al Lindsey, acting manager of chemical technical service, Dow Chemical Company, cites one outstanding return that his company has gained by keeping the service lab within shouting distance of the research lab. About seven years ago, a Dow technical service expert was touring the South African gold fields. He noted that repeated filtration was needed to remove clay from the gold ores, and he wondered if a chemical could do the job better.

Back home, he told some company researchers about his clay removal idea. One of them remembered a chemical with an affinity for clay that had been shelved five years earlier as a laboratory curiosity. Result: a new, highly profitable line of specialty chemicals developed to remove all kinds of impurities. Sales are now in the millions and growing fast,

Archer-Daniels-Midland Company is another company that doesn't want more than a few yards separating tech services and research. Both will be part of the company's new research center to be erected by 1962 on a 73-acre site in suburban Minneapolis.

There are three important factors to weigh in selecting a site for one of these new customer-oriented service laboratories:

- They must be easy for customers to reach.
- Since lab personnel must confer frequently with sales executives to decide how much "free" aid to give specific customers, the lab may have to be near company headquarters. Most companies also want their sales managers handy.
- If the service experts gather information on customer needs for the research staff, the technical service lab should be near the research lab. In addition, the service engineers sometimes run into tough problems that can only be solved in a full-scale research lab.

Some Companies' Experience

Using these factors, here's how several companies located tech service laboratories:

- The United Carbon Company set its three-quarter-million-dollar lab right in the midst of its main customers, the Akron rubber tire manufacturers—but over a thousand miles from both company headquarters in West Virginia and the research lab in Houston. It shares the building with the district sales force.

• In sharp contrast, the Phillips Chemical Company built its plastics resins tech service lab in Bartlesville, Okla., where company headquarters and the research lab are located, yet far from major markets. Phillips' district sales managers arrange periodic visits of major customers to the lab in chartered airplane flights.

• At least two companies have set up regional customer service labs. Dow Chemical's Plastics Division has its main service lab in Midland, Mich., with smaller labs in Connecticut, Texas, and California. The main package development lab of the Container Corp. of America is in Chicago, where company headquarters are located. A dozen branch labs have been set up in Boston, Philadelphia, Los Angeles, San Francisco, and other major cities.

Four years ago, Grace Chemical's Polymers Division built a million-dollar technical service lab in Clifton, N.J., which is close to Grace's New York headquarters. Here, within a 50-mile radius, is nearly half of the entire national market for molding plastics. Also, the lab has been able to hold down its test equipment investment because the big, specialized, little-used types of test instruments are available for rental nearby.

Although the main function of Grace's laboratory is service to customers, it also makes quality checks on competitive resins and helps set quality specifications for the Baton Rouge production plant based on customer needs. In addition, the lab evaluates all new resins developed at the company's research lab.

Competitors Are Welcome

Competitors are quite welcome at many companies' technical service labs. Reason: Many hosts want every member of their industry to offer technical service, not price shaving, as a means of gaining customers. In addition, they want every competitor to bear the same costs of selling; technical service costs can run as high as 8 per cent of sales for a new item. The head of one Dow Chemical service lab boasts that his toughest competitors have accepted his invitation to go over the lab he directs.

Industry's customers are demanding and getting more technical service. To stay in the market without resorting to price-slashing tactics, companies must offer comparable service. Hence the boom in building these practical new laboratories—a boom that shows no signs of tapering off. ◆

PROVIDING SALES LEADS results in cash awards to employees of the Peoples Gas, Light & Coke Co., Chicago, reports *Industrial Relations News.* Non-sales personnel receive, for example, ten dollars for each gas air conditioning unit sold as a result of their lead. These award payments follow installation and acceptance of the appliance by the prospect.

An average of $2500 to $3000 a year is collected by employees whose leads pay off. Sales department records show that over 75 per cent of the company's sales leads come from shop personnel.

Pros and Cons of
EQUIPMENT LEASE FINANCING

By Vincent M. Jolivet

Condensed from Business Review

EQUIPMENT LEASE FINANCING is becoming more and more commonplace in U.S. industry. Leasing, of course, is not new; certain types of equipment, including shoe-building machinery and data-processing machines, have been leased for many years. What *is* new is the fact that almost anything can now be leased in such a way that the difference between leased equipment and owned equipment is negligible and the own-or-lease decision becomes almost entirely a financial one.

Who Leases What?

First of all, what can be leased? A partial list includes automobiles and trucks, beer kegs, locomotives, office equipment, wall-to-wall carpeting, executive aircraft, electronic computers, turret lathes, and tugboats.

Who are the lessees? Probably about half of the large U.S. corporations lease some equipment. They can lease it from the manufacturer, from leasing companies, from factors or finance companies and their subsidiaries, or from individuals acting as lease brokers. Regardless of who the actual lessor is, however, the money used to finance the equipment comes principally from commercial banks, insurance companies, and pension funds or endowment funds.

There are several basic types of leases. One is the short-term lease, like that used in renting an automobile for a weekend. Another type is the lease-purchase, used when a prospective purchaser does not have the required down payment for purchasing equipment. In this case, the buyer rents the equipment for several months and is credited for a part of the paid rentals toward the purchase price. Once the amount accumulated equals the required down payment, the transaction is converted to a regular conditional sales contract.

Straight Term Lease

A third type of lease is the straight term lease. Generally speaking, it covers a period equal to about 75 per cent of the useful life of the equipment. Over the lease period, the rental payments will equal the purchase price of the equipment plus the financing charges. The lessee, in most cases, pays for all maintenance, insurance, taxes, and similar expenses.

Business Review (February, 1961), College of Business Administration, University of Washington.

At the end of the basic lease period, the lessee sometimes has an option to purchase the used equipment for a nominal amount. Such an option, however, can endanger the tax deductibility of the rental payments. More often, at the end of the lease period, the lessee has the option of renewing the lease at a greatly reduced rent—often as little as one per cent of the original value of the equipment per year. But this, too, can endanger the tax deductibility of the rental payments if the renewal rental option is set extremely low compared with the actual value of the equipment at the time the lease is renewed.

Lease financing, basically, is a variation of borrowing. The lessee makes regular payments that are basically equivalent to the interest and amortization payments for other types of debt. The ability to lease, like the ability to borrow, is based principally on the lessee's credit rating. There are some differences from the point of view of taxes, but these are often negligible. What, then, are the advantages of lease financing?

Cash Flow Aspects

The one advantage of lease financing over borrowing most often advanced is its superiority from the point of view of cash flow: It makes more cash temporarily available to the user. Whether this is true or not depends on the circumstances. One leasing company, for example, argues that leasing permits the user to pay for fixed assets out of earnings that those assets produce. Thus, by implication, the money that would otherwise be tied up in these assets is available for other profitable uses. However, this can be equally true of financing by means of a sales contract or a term loan. Proponents of leasing may retort that the elimination or reduction of the down payment frees at least some cash. But this answer is valid only when leasing is compared with a secured loan: 100 per cent financing via a lease does free more money than a secured loan that provides less than 100 per cent of the cost of the assets. If the firm can borrow the full amount, either on an unsecured loan or a loan secured in part by other assets, this advantage does not exist.

Borrowing Capacity

Unfortunately, many firms cannot borrow all they need from banks or from the sale of debt securities; here the advocates of leasing make their most telling point. If the borrowing capacity of a firm is not adequate to meet all of its needs, can leasing be used to finance equipment without impairing the firm's borrowing capacity? Can this borrowing capacity be saved to finance other needs?

The answer is a conditional "yes." Suppose a corporation's bank is willing to lend it $200,000 on a term loan basis. If this company can obtain another $150,000 worth of equipment through leasing without impairing its ability to get the term loan, the company may well benefit from leasing. This advantage, however, is conditional upon the banker *not* considering lease financing as a form of debt. Otherwise, knowing that the firm plans to lease $150,000 worth of equipment, the banker will probably reduce his offer of a term loan

from $200,000 to $50,000, and leasing will lose its foremost advantage.

There are several other minor advantages to equipment lease financing. It can simplify budgetary control and reduce accounting costs slightly. It allows piecemeal financing of new equipment. It can make the factory manager more aware of the cost of using equipment, because the financing charge is included in the rental.

The Cost of Leasing

What about costs? In leasing, financing charges included in the rental payments usually amount to 10 to 15 per cent simple interest. This is more than the normal cost of bank or insurance company credit or the normal interest rate on debt securities. This is not surprising, inasmuch as the leasing companies obtain a large portion of their funds from banks and insurance companies, and their profit must be added to the interest cost. In this respect, leasing companies are similar to finance companies (most of the larger finance companies are branching out into the equipment leasing field), and the charges for leasing are comparable to those made by finance companies under similar circumstances.

If leasing costs more than funds from some other sources, why, then, do firms use leasing? Principally, they use leasing as a *supplement* to bank and insurance company debt (if available) rather than as a substitute for it.

A Matter of Proportion

The problem can be simplified by relating the cost of leasing to the cost of capital. Generally speaking, debt capital is cheap (particularly with its tax advantage) and equity capital is expensive; however, the amount of debt capital that a firm can obtain relative to its equity is limited. If a firm can obtain additional funds through lease financing —thus increasing the proportion of debt to equity—then the average cost of capital will be less. If, on the other hand, lease financing merely replaces conventional debt without increasing the proportion of debt to equity, then no advantage is gained. ◆

Employment of the Handicapped

A RECENT SURVEY made by *Mill & Factory* among 220 industrial firms indicates the extent to which physically handicapped people are employed in industry. The survey shows:

- About 76 per cent of the companies surveyed employ handicapped persons. Handicaps include blindness, deafness, loss of limbs, and crippling diseases.
- The percentage of total workforce comprising handicapped people ranges from under 1 per cent (reported by 17 per cent of the companies) to over 10 per cent (reported by 9 per cent of the companies).
- Performance of handicapped workers is as good as that of other employees, report 89 per cent, and their absenteeism is lower, say 27 per cent.

GUIDES TO
Better Capital Budgeting

By C. G. Edge

Condensed from The Business Quarterly

DECISION-MAKING by guesswork can be dangerous—especially in the area of capital budgeting. Decisions on capital expenditures, particularly when they relate to new products or processes, must be based on complete, accurate, and realistic appraisals of future business conditions, markets, and technology.

Sound capital budgeting deals, of course, in uncertainty and makes no pretense of converting predictions into sure things. Its importance lies in reducing the area of uncertainty and thus allowing top management to concentrate its efforts where its judgment is needed most.

Basic Requirements

Successful capital budgeting follows from seven important steps:

1. Obtain the most realistic estimate of future demand.
2. Identify the correct costs for appraising the expenditure — only costs that are truly relevant to the project.
3. Estimate such costs skillfully.
4. Forecast sales ana costs over the economic life of the equipment, in order to measure the return on investment.
5. Measure the return on investment so that it is directly comparable to the cost of capital.
6. Prepare an objective report, including all relevant facts as well as all intangible aspects of the expenditure.
7. In all this, keep management free from excessive administrative detail.

These are laudable objectives—but management often falls short of them. One reason is that management often is concerned with irrelevant

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elements. Another is that it deals with the correct elements—but measures them inaccurately. Improvement can be made in these areas.

What to measure

• *Market demand.* Market data are essential for estimating the rate of return on investment. The assumption that capacity production can be sold throughout the life of the project should never be accepted without adequate supporting evidence. It is necessary to obtain sound estimates of the total market, the intentions of competitors, and the share of market that can be achieved.

• *Cost-price trends.* The demand that must be measured is dynamic—it is demand over time, not only now. It must be related to prices—and it is dangerous to assume that the trends of future prices and costs will be parallel. Costs may increase through inflation, while prices may decline as the product is subjected to competition from a new model or type. Careful consideration, therefore, should be given to how a possible divergence in these two trends may affect future earnings.

• *Incremental costs.* Costs needed in capital budgeting are often different from those needed in cost accounting and in financial statements. Two sets of costs are needed for comparison: those that will change if the investment is made and those that will be incurred if it is *not* made. They include short-run costs within the framework of existing plant capacity, long-run costs (like depreciation and maintenance), and "fixed" costs (like service and administration expenses), which—contrary to a common misconception—do not remain the same but increase when operations are expanded.

With modern, refined techniques for calculating return on investment, only cash costs are needed. It is the timing of cash outlays and cash revenues which determines investment worth. In addition, future costs are the relevant ones; past costs are useful only insofar as they provide a sound basis for projecting the future.

• *Capital costs.* Care and skill are needed to prepare reliable estimates of plant and equipment expenditures. Historical engineering data, standard engineering estimating techniques, and firm quotations, whenever possible, are valuable aids.

• *Economic life.* Estimation of the economic life of the equipment is a difficult but crucial part of investment appraisal. The return on investment cannot be calculated without it. If conditions are too uncertain to allow for a reliable estimate, it is often possible and helpful to assign, with sufficient accuracy, some minimum period for the life of the equipment. Conservative estimates are usually the most reasonable ones.

• *Supply and cost of capital.* A proper appreciation of the cost of capital is useful in establishing cutoff points below which the project ceases to be economically attractive. Furthermore, new measuring methods allow the return on investment to be calculated in exactly the same way as the cost of capital. The spread between the two rates, therefore, provides an accurate gauge of the safety margin available for risk factors. It is a logical yardstick for management to consider in deciding whether to

accept or reject an expenditure proposal.

Even with the best of estimating techniques, no one estimate can cover all possibilities. It is useful, therefore, to calculate how alternate estimates of, say, costs would alter the expected return on investment. Similarly, it is important to measure the impact of possible changes in product price or volume, and of changes in production capacity.

Capital-Expenditure Proposals

Top management time is often wasted on inadequately prepared appropriation requests. One reason is that the operating manager down the line frequently is unaware of precisely what is required for sound appraisal of capital expenditures. A demand at the top for first-rate, complete reports and estimates can have a healthy impact far down the line organization.

Formal procedures for preparing and presenting capital-expenditure proposals have many advantages. Standard terminology, estimating techniques, and methods of appraisal enhance the comparability of appropriation requests arising in different parts of a company. If standard procedures encourage expenditure decisions throughout the company to be made on a common basis, authority for approving less important expenditures can be delegated with greater confidence and senior management time can be freed from administrative detail. As a result, more time can be devoted to those major capital expenditures that have the greatest impact on the long-term future of the company. ◆

Successful Relocation for the Small Business

WHEN A SMALL BUSINESS is forced to evacuate an area that is rebuilt as part of an urban renewal project, it needn't fold up for good, reports *The Biddle Survey*. In a survey covering 400 municipalities that have come under the bulldozers of urban renewal, the Small Business Administration found more than 75 per cent of the evacuated enterprises had relocated. They have thrived in their new spots, with 85 per cent of this group actually showing increased profits within a year after they re-established their business.

One fourth of the dislocated businesses did not make it. They were submarginal or substandard and could not exist in any other than a slum area. Others failed seriously to consider the effect of redevelopment until it was too late.

The advice from the Small Business Administration to enterprises threatened by a public improvement program is to keep informed of all developments, and obtain financial and technical assistance provided under the program. The Housing Act provides for a maximum of $3000 to compensate for moving and relocation costs. Not all can qualify for the maximum, of course, but the average of $1500 per business may still be enough to spell the difference between failure and success during the period when funds are low.

Records Control Programs in 1300 companies

By Charles E. Ginder
Condensed from Office Executive

IN A GREAT MANY companies, important savings in space, time, effort, and equipment are being realized through a program of records control. The extent to which offices throughout the nation are combatting the mounting costs of creating, filing, and storing records is revealed in the results of a recent survey conducted by the National Office Management Association among over 1300 companies.

An informal records control program has been established in 51 per cent of the respondent companies; a formal one is conducted in 39 per cent of the companies; and 10 per cent have no control program at all.

A little more than half the respondent companies recently conducted a records analysis. Of this group, almost two-thirds found that they could eliminate 20 per cent or less of their records, almost one third discovered they could do away with from 21 to 50 per cent of their records, and the remainder found they could eliminate more than 50 per cent of their records.

The Man in Charge

Who administers a records control program? Among those companies with such a program, about 35 per cent report that it is administered at the department level by the department head. About 34 per cent have one executive in charge of the program; 18 per cent have an executive group or committee in charge; and about 3 per cent use other officials to administer it. The remaining 10 per cent did not report on the program's administration in their firms.

What goes into a records control program? The element most often reported by the respondents is a destruction schedule for the disposal of inactive records. Other aspects are a specific retention period for all records; specific retention period for certain records only; a plan for protecting and preserving vital, inactive records; and provision for microfilming or otherwise reproducing records.

How Much Is "Vital"?

Some records, of course, are vital —essential to the existence of the organization, irreplaceable, or perhaps required by law for the continuation of the company as a legal

Office Executive (March 1961), National Office Management Association.

entity. What do companies do about these?

The first step is deciding which records actually are vital. The person who makes this decision is, in the large majority of companies reporting, the person in charge of the records control program as a whole. Several companies, however, use the added services of a legal advisor in making this decision. Approximately one-quarter of the companies classified more than 60 per cent of their records as vital; another quarter indicated from 41 to 60 per cent as vital; about one-fifth classified from 21 to 40 per cent as vital; and most of the remainder considered from 1 to 20 per cent of their records as vital.

How Many Copies?

Most of the companies surveyed retain only one or two copies of their vital records: 62 per cent retain one copy, and 25 per cent retain two copies. A minority retain three or more copies of vital records. Only 34 per cent of the companies duplicate their vital records, via microfilming (listed most often), or by making carbon copies, punched cards, or photo copies.

About 50 per cent of the survey respondents reported that copies of their vital records are kept in more than one place or storage area and 28 per cent reported that their vital records, along with their inactive records, are kept in a structure which is separate and remote from the main building.

Protection

How do these companies protect their vital records? A majority have the storage place protected from fire by a sprinkling system, while others use underground vaults, shelters, or guards. About 83 per cent reported that access to their vital records is restricted to as few persons as possible. Less than 30 per cent of the companies have their vital records insured. About 70 per cent of the respondents felt their vital records are sufficiently protected to permit orderly resumption of office operations within a reasonably short time if disaster should strike.

Storage and Destruction

When transferring and storing records, the majority of the companies surveyed place their inactive files in low-priced storage areas in the same building. The other companies store their inactive files in a separate building or in the originating department for ready access. Types of filing equipment the companies use for active records include transfer cases, cardboard cartons, filing cabinets, shelf-filing equipment, and mobile storage installations. For storing and protecting vital records, companies use fire-resistant vaults, fire-resistant filing cabinets, fire-resistant safes, and insulated filing equipment. About 88 per cent of the survey respondents indicated that their companies standardize on filing equipment whenever possible.

About 71 per cent of the companies have a schedule for the destruction of valueless and obsolete records in the files and in the storage area. When disposing of worthless records that are in paper or card form, the companies burn them, sell them for salvage, shred them, or combine these three methods. ♦

BRIEF SUMMARIES
of other timely articles

GENERAL

LOOKING TO SPACE FOR MORE, FASTER COMMUNICATIONS. *Business Week* (330 West 42 Street, New York 36, N.Y.), February 25, 1961. 50 cents. The volume of communications—especially international messages, business calls, and data-processing hookups—is growing explosively, and technology is growing just as fast. Satellites will almost certainly be used soon to bounce communications from continent to continent, and scientists have harnessed new methods to carry huge loads, according to this article, which investigates problems the communications industry must deal with in shifting to the new technology. The big problem: Since lawmakers lag far behind the technicians, national and international regulations may not be revised fast enough to permit full and orderly use of the new methods and techniques.

UPGRADING INDUSTRY'S PLANT. By Melvin Mandell. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), March, 1961. Reprints 30 cents. Industry normally spends two-thirds of every building dollar on plant modernization and expansion, and this year the slice is expected to go up to 70 per cent, according to this special five-part report, which discusses the latest practices and trends in plant investment, location, and construction. Numerous examples from industry illustrate cost-cutting devices, the kind of investigation and planning that pays off in successful plant location—both here and abroad, the role of the technical service laboratory in attracting industrial customers, and the use of new methods and materials to bring building prices down.

THREE APPROACHES TO ORGANIZATION. By Edward G. Koch. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1961. Reprints $1.00. The author takes a look at some of the more important books on the subject of organization and categorizes them according to their approach: Some see organization and control as a methodology for improving management practices; others search for touchstones of management principles from comparative studies of successful businesses; and still others seek theories of organization from the behavioral sciences. In the author's view, businessmen will learn much from the recommended books (even though they contrast opposing schools of thought).

HOW TO TEACH YOUNG MEN TO WORK. By Eugene Emerson Jennings. *Nation's Business* (1615 H Street, N.W., Washington 6, D.C.), February, 1961. Reprints 15 cents. College graduates now being hired and those who will take jobs in the next few years have lofty and often unrealistic occupational goals and, in many instances, an ignorance of the world of business, the author believes. To train them for managerial positions, he advocates a five-step approach: (1) Use prop bosses

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at first—ones who will guide them, but won't deprive them of the successes or failures necessary for progress; (2) assign responsible beginners to bosses who will give them challenging assignments, but won't overdo it; (3) set up terminal programs; (4) train superiors in skills necessary to develop the beginners; and (5) encourage top executive sponsorship of promising graduates.

IS THE GAME WORTH THE CANDLE? By Kenyon E. Poole. *Challenge* (475 Fifth Avenue, New York 17, N.Y.), January, 1961. 30 cents. Is it a mistake for regional industrial promoters to offer tax advantages to encourage industry to move from one area into another? The author, who thinks it is, discusses bad effects and social implications of the practice and maintains that limits must be set on the extent to which states act against each other's interests. He recommends offering industry other kinds of assistance, such as state subsidies in the form of favorable interest terms on borrowing for new plant and equipment.

MARKETING

THE GREAT TRAINING ROBBERY. By John H. Zenger. *Sales Meetings* (1212 Chestnut Street, Philadelphia 7, Pa.), January 20, 1961. 50 cents. Current methods of training salesmen will soon be as antiquated as the pitchmen and drummers of old, according to the author, who analyzes why the methods are not designed to meet today's needs. He suggests six steps to improve sales training: (1) Bring in professional help to structure meetings; (2) build meetings around small group discussions on a wide range of topics with competent group leaders; (3) get outside speakers; (4) plan activities to include each participant at least three-quarters of the time; (5) keep entertainment separate from meetings; and (6) maintain a dignified, serious atmosphere at the training portion of sales meetings or conventions.

HOW TO DESIGN SALES TERRITORIES. By Walter J. Talley, Jr. *Journal of Marketing* (27 East Monroe Street, Chicago 3, Ill.), January, 1961. Reprints $1.00. What is the best way of designing sales territories? The author presents a case history of a national company that was still dissatisfied after a ten-year period of assigning salesmen first by geographical layout, then by dollar sales volume of accounts, and finally by the district sales manager's task assignment. Successful new methods were developed by a company task force that studied the problem from three angles: assignment of salesmen based on present call load, on present and potential call load, and on incremental cost versus profit. For some companies these methods may be directly applicable; for others, variations may be necessary.

TESTS FOR TEST MARKETING. By Benjamin Lipstein. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1961. Reprints $1.00. Given enough time and money, anyone can easily judge from a test-marketing project whether or not a product will gain sufficient consumer acceptance to warrant going ahead nationally. But in view of the risk that a competitor will get into the market first with a variation of the product, as well as the danger that more time and money will be lavished on the test than the results are worth, the incoming data must be evaluated as the test develops. This article discusses how brand-share data derived from store audits and consumer panels can be used to get an early and continuing evaluation of the market test, thus making possible an early decision to take action or to wait.

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PRODUCTION

BUYERS' GUIDE AND 48TH ANNUAL EQUIPMENT REVIEW. *American Machinist / Metalworking Manufacturing* (330 West 42 Street, New York 36, N.Y.), January 23, 1961. $1.50. This special issue combines a comprehensive buyers' guide—including 1900 classifications of metalworking products—with a complete, concise review of all announcements of new machines, equipment, materials, and parts appearing in the magazine during the last year. Readers can (1) get a quick briefing on the newest tools and materials for metalworking, and (2) find the names, addresses, and telephone numbers of the manufacturer and the manufacturer's distributors, agents, and sales outlets.

READER'S GUIDE TO RECEIVING AND STORING. *Material Handling Engineering* (812 Huron Road, Cleveland 15, Ohio), January, 1961. 75 cents. This guide to receiving and storing presents new developments in the field, describes trends, points out trouble spots, and gives case studies that illustrate good storing and receiving. It features sections on the selection of returnable containers, the design of basic storage units, specification of packaging to vendors, application of fundamentals in good dock layout, respective advantages and disadvantages of bin and slot storage, and modern yard storage.

SAFEGUARDS FOR THE POINT-OF-OPERATION. By C. J. Vlahos. *Mill & Factory* (205 East 42 Street, New York 17, N.Y.), February, 1961. $1.00. Safety hazards connected with the operation and maintenance of automated and high-speed machines are different from those encountered in conventional machines; maintenance workers, for example, frequently have to diagnose faults or make adjustments while the advanced equipment is in operation. This article presents information on guards, controls, and other safety devices that eliminate hazards in high-speed manufacture.

INDUSTRIAL RELATIONS

PEOPLE POWER. ***Steel: Metalworking Yearbook Issue*** (Penton Building, Cleveland 13, Ohio), January 2, 1961. $2.00. With 35 cents of every sales dollar going for total payroll, people have become metalworking's biggest cost, and, because of their low productivity, its biggest waste as well. This special report explores many aspects of the problem and offers some suggestions, including this ten-step approach: (1) Know where you're going; (2) know how you want to get there; (3) pick the right people to help; (4) let them know what you're doing and why you're doing it; (5) know what motivates them; (6) give them the right tools to do their jobs; (7) don't settle for less than their best effort; (8) reward them fairly; (9) lead them; (10) follow through by checking performance, praising progress, pointing out problems, and appraising results.

THE FIFTEENTH ANNUAL ENDICOTT REPORT. By Frank S. Endicott. *Journal of College Placement* (35 East Elizabeth Avenue, Bethlehem, Pa.), February, 1961. $1.50. A beginning engineer in 1961 will be paid slightly more than college graduates starting in accounting, sales, or general business, according to a survey of policy and practice in employment of college graduates in 210 large- and medium-sized companies that actively recruit college graduates. Other results of the survey indicate that recruiting effort will tighten in 1961 (the responding companies made a total of 9600 college contacts to employ

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graduates last year, but they will make only 9,155 contacts this year) and that salaries will continue to increase in spite of the leveling trend in the number of college graduates hired.

MORE VALUE FROM PERSONNEL TESTING. By Andrew H. Souerwine. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1961. Reprints $1.00. The company considering installation of a personnel testing program must take into account such factors as determining what kind of personnel problem it has, whether tests can help to resolve it, how to develop and evaluate such tests, how much they cost, effects on labor supply, and the like. But these considerations will be of little value, the author maintains, if the company involved does not take a closer look at (1) its departmental relations—particularly between line and staff functions; (2) its attitudes about people, both within and outside the company; (3) its feelings about objective measures of evaluation; and (4) its desire to change.

FINANCE

THE CENTRAL BANK IN A MARKET ECONOMY. By Robert V. Roosa, *Fortune* (Time & Life Building, Rockefeller Center, New York 20, N.Y.), March, 1961. $1.25. The author, new Undersecretary of the Treasury for Monetary Affairs, discusses the role of central banks in keeping the market economy at its most productive level and reveals many of the basic convictions that will guide him in office. He believes that the success of a market economy depends on freedom and spontaneity; that monetary discipline is a prerequisite for growth; that public policy must create the "certainty of uncertainty" about the direction of prices and interest rates; and that the government's role should be to help adjust imbalances at the margins, never to dictate the composition of the whole economy nor to operate many of its parts.

OVERHEAD COSTS AND INCOME MEASUREMENT. By William L. Ferrara. *The Accounting Review* (218 David-Kinley Hall, University of Illinois, Urbana, Ill.), January, 1961. $1.50. The author refutes two basic assumptions involved in the accounting for manufacturing overhead costs as it relates to income measurement—namely, that a fixed-variable cost segregation is best for income measurement purposes and that unit costs should not be allowed to vary with volume. Arguing that a straight-line amortization of costs associated with fixed assets should be replaced by a unit-of-output amortization plan or an approximation thereof, he maintains that the fixed-cost portion of semi-variable cost inputs should be reassociated with their variable counterparts and then allocated to the output for which they were necessary elements of production.

THE JUDGMENT FACTOR IN INVESTMENT DECISIONS. By Ross G. Walker. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1961. Reprints $1.00. Rather than urging the use of a formula for analyzing investments, the author focuses on some basic assumptions and background principles that are important in top-management thinking *before* figures, formulas, and technical refinements are committed to paper. Major points dealt with are: (1) business' unrealistic approach to investment problems; (2) shortcomings of current appraisal methods—including things that are done wrong as well as things not done that should be done; (3) current leadership in improving industry practices in capital budgeting; and (4) requirements for better administrative handling and control of the investment appraisal process.

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What's Ahead in Collective Bargaining?

(*Continued from page* 22)

per year over a 12-year period. In dollars, average fringe benefits are running in excess of $1,100 per year per employee—about 55 cents per hour

These costs must be considered with direct wages as stimulants to prices and inflation. An insight into the cost of supplemental benefits is provided in the recent announcement by the steel industry that higher insurance expenses (which, by contract, can be applied against cost-of-living increases) wiped out the 3-cent cost-of-living adjustment due employees last December. The steel limitation on escalation and the elimination of these clauses at General Electric, at Westinghouse, and in the railroad industry curb one rather unobtrusive wellspring of inflation. The coming auto negotiations on escalation clauses will be of interest, since the fad was fathered in this industry, and the United Auto Workers has already threatened reprisals should management attempt limitations.

Although more than a million employees were removed from automatic cost-of-living provisions last year, there was a decided shift to deferred increases in long-term contracts—one answer to the argument that escalation clauses are an essential protection for workers under two- and three-year contracts.

Liberalized Benefits

The high priority of liberalized supplementary benefits was highlighted by several major settlements in 1960—steel, railroads, and General Electric—which saw the liberalization of health and welfare provisions, vacation eligibility, added paid holidays, termination pay allowances, pension benefits, and vesting rights. No new departures in benefit coverage were apparent, but the emphasis on employee security was strong.* This trend toward greater security is certain to continue as the level of unemployment stays high and the total number of blue-collar jobs available in manufacturing either remains relatively static or declines.

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*For a fuller discussion of the issues of job security, work rules, and featherbedding, see Mr. Karpinsky's article, "The Bargaining Outlook for 1960," in the March, 1960, issue of THE MANAGEMENT REVIEW.—ED.

One benefit area in which contractual improvements can be foreseen is in medical care for retired employees and their widows. The need to preserve their economic well-being is clearly recognized by government, organized labor, and business; the disagreement pertains only to the manner in which benefits are extended. The Administration proposes broader Social Security coverage, whereas the Chamber of Commerce urges private industry to modify health-care programs for retirees to cover major medical expenses. In all likelihood, the Social Security approach will be legislated; however, this will only partially relieve union pressure for broader benefits on a company-by-company basis.

The necessity of planning and establishing health and welfare programs outside a supercharged negotiating atmosphere is increasing. The greater the exposure of this important benefit area to collective jockeying, the less is the possibility of getting maximum advantages per dollar expended.

New Varieties

Should any new varieties of fringe benefits emerge from this year's bargaining, the auto industry negotiations would be the most likely source. The UAW is bound to renew its requests for sharing profits among car buyers and employees and for a shorter work week, as well as asking for improvements in existing provisions. In addition, there may be an attempt to thwart a Ford plan to build the Cardinal auto abroad by imposing a penalty—a fixed sum to be deposited in a union welfare fund—on each car imported into the United States.

PROBLEMS OF UNEMPLOYMENT

The number-one industrial problem facing the nation is unquestionably unemployment—not a mass temporary layoff due to a cyclical recession, but a persistent, nagging inability of business to absorb all those seeking jobs. Not since 1953 has the economy operated at an unemployment ratio lower than 3 per cent, once accepted as an indicator of normalcy. During the prosperous period of 1955-1957, unemployment averaged over 4 per cent, and during the 1959 recovery it ranged between 5 and 6 per cent. There is little evidence to indicate that a significant improvement will occur, even when industrial production regains momentum.

Acceptance of an unemployment ratio running as high as 5 per cent during good times would constitute an economic drain of great proportions. Government action—programs to aid chronically depressed areas and to retrain workers, faster tax write-offs to industry, public works, etc.—promise some relief in the long run, but the immediate outlook is bleak. This is particularly true of the jobless unskilled and semiskilled workers in heavy industry, who are being squeezed out of future rehiring opportunities and find the transition to growing service industries particularly difficult.

Trade unions will press for severance pay and a shorter work week as partial solutions, but it is doubtful that much will be accomplished soon through collective bargaining, for two reasons: (1) Employees generally oppose work-sharing where weekly earnings are diminished, and (2) a sizable reduction in work hours without a corresponding reduction in wages would have a sharp impact on industrial labor costs and prices. Work-sharing to the extent of planned, rotating layoffs to take advantage of unemployment compensation subsidies is gaining increasing favor where companies and unions are hard hit.

FOREIGN COMPETITION

Another interesting development on the labor scene is the increasing awareness of trade union members of the relationship between wages, prices, and the inroads of foreign competition. Protectionist tariff sentiments are growing among a widening circle of unions, and in some cases direct action has been taken or is scheduled: On May 1, the Amalgamated Clothing Workers are scheduled to refuse to cut Japanese fabrics, and a Chicago local of the IBEW threatens to stop work on installations or assemblies using foreign-made electronic components. The maritime unions have been picketing foreign-registered ships owned by American interests and are organizing their crews. The International Ladies' Garment Workers Union walked out at several Virginia plants last spring to restrain the struck company's importation of dresses made in Ireland.

These and other actions to curb low-wage imports are contrary to the traditional AFL-CIO policy of free trade, which has been followed in the past because American merchandise exports exceeded imports and thereby created domestic jobs. Low wages coupled with

technological advances and new equipment abroad are making an increasing number of U.S. industries noncompetitive, not only in world markets, but at home. Increased exports are a key to expanded jobs and industry prosperity, and intercountry wage differentials will play a more significant role as other nations continue to overtake America's mass-production advantages. Partisan boycotts are a poor risk, since they may trigger damaging retaliatory foreign controls. In industries where exports are a contributor to economic health, free-wheeling domestic wage-price policies may be curtailed somewhat by these market considerations.

The question of wage increases versus price decreases has never been realistically faced within the United States, and perhaps no resolution is possible. However, it is an area in which even a partial solution would confer immediate rewards in the form of an increase in general living standards and a more competitive position in international trade.

NEW PRINCIPLES OF ARBITRATION

A most controversial subject in present-day industrial relations is the potential impact of three U.S. Supreme Court decisions, handed down last June, on labor arbitration. These decisions establish two new principles of labor arbitration to be followed by the courts: first, that any grievance is arbitrable, whether or not a specific contract clause is invoked, unless the agreement plainly excludes the matter from arbitration; and second, that an arbitrator's award is final and is not subject either to review or to appeal. In essence, the decisions further declare that management has no vested rights that bar arbitration unless such rights are enumerated in the contract. An underlying thesis of the Court argument was that such broad-scaled arbitration was a proper *quid pro quo* for a no-strike clause. (It is questionable whether the court will proceed logically from this point to provide remedies for no-strike violations.)

Disruptive Effects

Years of established labor arbitration practice were uprooted by these decisions. Many regard them as poor law based on naive, academic concepts of modern labor relations. The degree to which they will disrupt collective bargaining will depend largely upon

individual unions and managements. If a union were to utilize these new principles to the fullest, contract negotiations could resolve themselves into a never-ending procedure, with the union privileged to assert any grievance and to submit any unsettled issue to arbitration. True, many arbitrators will strike down frivolous grievances, but—despite the Court's belief in an arbitrator's infallibility—unwarranted, non-negotiated concessions will inevitably be incorporated into labor contracts.

At this stage of the controversy, most managements are adopting a "wait and see" attitude, at the same time scrutinizing rather carefully the grievance and arbitration provisions of their contracts. Where concurrence can be obtained, agreements should be clarified with respect to arbitrable matters and the authority of arbitrators. Actions to eliminate no-strike clauses, to initiate grievances against unions, to detail management rights contractually, to push for a legislative reversal, and to take other countermeasures would appear to be premature. But the fact that arbitrations are bound to multiply implies a rather self-evident admonition to management: Future grievances must be thoroughly investigated, fully documented, and logically presented by competent personnel.

NO MARGIN FOR ERROR

In all areas subject to collective bargaining—wages, fringe benefits, arbitration, work rules, subcontracting, automation, and inter-union disputes—the need for management to plan and execute policies more carefully is growing. Pressure for greater job security is increasing; with home and industrial building tapering off, craft- versus industrial-union competition for plant construction work will be aggravated; subcontracting and the changeover to automation can be disruptive if unplanned; preservation of outmoded work rules and practices can freeze in production inefficiencies.

These are some of the problems that will be met across the bargaining table, and management must be prepared with well-thought-out and imaginative approaches to their solution. Not too long ago, the cost of miscalculations could be absorbed without much trouble; in today's recession-dominated economy, and in the competitive markets of tomorrow, there will be no leeway for companies that make costly mistakes in negotiations or in contract administration. ♦

Tariffs and World Trade

(*Continued from page* 27)

hibition against trade discrimination; that is, the most-favored-nation clause does not apply to tariff cuts taking place within either group.

Unresolved Difficulties

In both cases, one major difficulty remains to be settled within the framework of the GATT. In the EFTA, it is the question of whether the exclusion of primary agricultural products from the arrangement violates the GATT requirement that a free-trade area must comprise "substantially all trade" among its members. In the Common Market, the problem is whether the association of the overseas territories with the Six creates new preferences. To be acceptable to the GATT, a customs union or a free-trade area must not establish any new preference. This means, for example, that Commonwealth preference is acceptable as it is, but cannot be extended, as has been suggested in some quarters, to all members of the EFTA. This would clearly discriminate against other members of the GATT, including the United States. The association of the overseas territories of the Common Market creates new preferences, in that countries such as Germany and Italy now have a preferential relationship with the French African territories that they did not have before.

More recently, the EEC "variable import levies" for agricultural imports have come under fire in GATT, on the grounds that neither a customs union nor a free-trade area is allowed to *raise* the general level of protection. So there are difficulties in both the Six and Seven groups.

TARIFFS—INTERNAL AND EXTERNAL

What is happening to the tariffs in Europe, and how is this affecting trade? The Common Market countries have made three cuts of 10 per cent each on trade between members in industrial products—on January 1, 1959, July 1, 1960, and January 1, 1961—and a further cut of either 10 or 20 per cent is due on July 1, 1961. All told, thanks to the acccleration of the program, it is expected that tariffs inside the Common Market will be at zero by 1966.

On January 1, 1961, the Six also took the first step toward setting up a common external tariff, based on the average of national tariffs in operation on January 1, 1957. In order to reach the average, Benelux and Germany have to raise some rates, while France and Italy have lowered some of theirs. Germany is in a special position in regard to a large number of products on which the tariff was reduced in 1957; on these items, a smaller adjustment is now permissible.

As a gesture toward the other European countries, the Six have proposed to reduce the original external rate by 20 per cent. This concession may be withdrawn, however, if reciprocal advantages are not forthcoming in the GATT conference.

The EFTA position is much simpler. The Seven cut their tariffs on trade between members by 20 per cent on July 1, 1960, and are due to make eight further cuts of 10 per cent. The next will take place on July 1, 1961.

The Six have therefore cut their internal tariffs by 30 per cent and the Seven by 20 per cent. Both groups are now at the stage where they treat trade between their own members on a different basis from trade with outside countries.

A Complexity of Rates

This means that traders in the Six and Seven have to maintain separate tariff schedules. In the EFTA this is not so difficult, since the national tariffs on goods from third countries remain unchanged. The British importer of machine tools, for example, has to pay tariff at the old level on consignments from the United States or Germany, and at a level 20 per cent lower on those from Switzerland or Sweden.

In the Common Market, the position is complicated by the fact that the national tariffs are in the process of being adjusted to the common external tariff level. This involves some difficulties. A French camera dealer used to pay a 25 per cent duty on all imported cameras, wherever they came from. Now the tariffs inside the Common Market have been cut by 30 per cent, so a German camera will only pay 17.5 per cent. But because the old French rate was above the common external tariff level of 18 per cent, it was cut from 25 to 21.5 per cent on January 1. So an American

or British camera entering France pays 21.5 per cent, against the 17.5 per cent charged on those coming from inside the Common Market. This difference will go on increasing until the rate inside the Common Market is down to zero and the common external rate is 18 per cent.

An example of the opposite process might involve a Belgian exporter of machine tools. The old Benelux most-favored-nation rate was 6 per cent, and the common external tariff will be 8 per cent. Following the changes on January 1, German machine tools entering Belgium now pay only 4.2 per cent, while British or Swedish or American machine tools pay up to 7.8 per cent. Until the tariff cuts are completed (in 1966 for the Common Market and in 1970 for the EFTA, although both may be speeded up), this complexity of rates will continue.

Another complication is introduced by the Common Market offer to reduce its external tariff by 20 per cent. This has already been applied in making most of the adjustments toward the common external tariff. There is an exception, however, in a number of the products formerly on List G—for example, unwrought aluminum, motor-car parts, machine tools, and various foodstuffs and raw materials—where adjustments have been made to the original external rate.

With EFTA tariffs at most-favored-nation rates, and with some Common Market tariffs at the external common tariff rate and others at the minus 20 per cent rate, traders will need to have up-to-date records of tariff rates close at hand for some years to come.

PATTERNS OF TRADE

How will the tariff changes affect the broad pattern of trade of the Western European countries, and of trade between them and the rest of the world? At present, taking the most-favored-nation average rates of the Six, Seven, Canada, and the United States, eight countries have rates that are generally high for most manufactured products. These high rates are in France and Italy from the Six; Austria, Norway, Portugal, and the United Kingdom from the Seven; and the United States and Canada. Low rates are in Denmark, Sweden, and Switzerland in the Seven, and Benelux and Germany in the Six.

Of course, there are exceptions to these general classifications. Some of the more striking are the United States tariff on motor cars (8.5 per cent), on farm machinery (2 per cent), and on tractors (zero), and the German rate of 16 per cent on explosives.

On the whole, the small countries with incomplete economies tend to use tariffs or quotas to protect classes of manufactured goods they make themselves, but let in free those they have to buy entirely abroad.

Machinery

How will all this affect trade in the main categories of manufactures? In machinery of all kinds, a considerable amount of diversion will take place between the Common Market and the EFTA. Factors such as firm delivery dates, installation and maintenance facilities, and conforming to national standards play a big part in this trade. Nevertheless, as the tariffs come down inside the Common Market, Germany and Belgium in particular will stand to gain in nonelectrical machinery. Britain, Austria, and Switzerland will find it increasingly difficult to sell textile machinery, tractors, and machine tools in the Common Market. The United States, which has previously supplied about 90 per cent of the nonelectric and electric machinery entering the Common Market from outside Europe, will encounter new problems.

Motor Vehicles

Motor vehicles will undoubtedly be affected by the new groupings. EFTA imports far more vehicles from the Common Market than it sells there. In the absence of other factors, therefore, Britain in particular should increase its automobile sales in EFTA, where it will have an advantage of some 15 per cent in Sweden and 20 per cent in Australia. United States firms, the chief suppliers outside Europe, have their subsidiaries well established in both the Six and Seven and will no doubt concentrate on selling cars made *in* Europe *to* Europe. In the Common Market, there should be a big increase in automobile sales between France, Germany, and Italy.

Chemicals

In chemicals, the changes resulting from the EFTA are not great. Over half the Common Market exports of chemicals to EFTA

pass over tariff barriers of less than 10 per cent at the moment. British exports of chemicals to the EFTA countries mostly pay tariffs of under 10 per cent, so that free entry will be a small advantage. The United States, as the biggest outside supplier of Europe, may stand to lose trade to Germany and France in the Common Market and to Britain in EFTA. The biggest advantage that the United States chemical industry could have in Europe would be a reduction in the high British tariff rates on chemicals through the GATT.

Paper and Board

In the paper and board sector, the big change will be that Germany will now have a tariff of 6 to 7 per cent on newsprint. The EFTA producers, especially Sweden, will have an advantage in the British market, where they will be competing on equal terms with Canada on all products except newsprint. The United States will lose particularly in the Kraft paper trade, where Norway and Sweden will have an advantage of 15 per cent in the EFTA markets. Switzerland's highly protected paper industry will be vulnerable to Scandinavian competition.

Textiles

In textiles, both EFTA and the Common Market have about the same level of protection. But EFTA countries, which imported more from the Common Market than they exported to EEC countries, now stand to gain on balance. Both groups are more concerned about competition from Japan and other low-cost countries, especially in cotton, than from each other. Britain, because of duty-free entry for Commonwealth products, already takes over half of West Europe's imports of textiles from Hong Kong, India, and Pakistan.

Raw Materials and Petroleum

For raw materials and petroleum, both the Common Market and EFTA have low rates. Some of these commodities, such as vegetable oils, cork, flax, and hemp, are produced by the Six and may therefore be given Common Market agricultural treatment. Apart from these items, the principal Common Market duties will be on wood pulp (6 per cent), aluminum (10 per cent), lead (6 per cent),

and zinc (5 per cent). On all of these, however, tariff-free import quotas are to be allowed for the time being.

On petroleum, the Common Market rate is zero, but it is possible that Saharan crude may get preferential treatment. This may take the form of special arrangements, such as a two-tier tariff for products refined from Saharan crude. The rate on refined petroleum products has still to be decided.

In EFTA, most rates on basic materials are zero or low. A very comprehensive "basic materials list," included in the Stockholm Convention, covers materials from inside and outside the EFTA countries, all of which are granted EFTA treatment.

Food, Beverages, and Tobacco

The key to the "food, beverages, and tobacco" situation is that farmers, whether they are in the Six, the Seven, or the United States, have votes. They are able to make their voices heard in the government of their country. Trade in these products is therefore likely to be affected for a long time to come by protection and price-support measures for home producers.

The Common Market countries are now seeking agreement on a common agricultural policy that will have the effect of protecting farm produce—notably wheat, meat, dairy products, sugar, fruit, and vegetables—from world competition by a mixture of variable import levies, tariffs and subsidies. Considerable argument is going on at the present time between the Dutch, who want freer trade in agriculture quickly, and the rest, who are in no hurry at all.

EFTA excludes agriculture from automatic tariff reductions, but it recognizes the need to help its agricultural exporters. Denmark has made special treaties with Britain, Sweden, and Switzerland, under which it receives tariff and other concessions. The UK is abolishing its duties on EFTA bacon, canned pork, and blue vein cheese under the Stockholm Treaty.

Imported foodstuffs and raw materials raise the difficult question of preference to the overseas territories of the two groups. The British Commonwealth countries enjoy preference in the United Kingdom market for some of their food and raw materials; there is no preference on mutton, lamb, wheat, and wool, all of which enter the United Kingdom free of duty from all sources, and the

tariff on other items—notably beef, veal, butter, cocoa, and tea—is very low. Some of the Commonwealth countries give reciprocal treatment to United Kingdom manufactured goods. The value of this preference has fallen from between 10 and 12 per cent in 1937 to 6 to 7 per cent in 1948, and it now stands at 4 per cent. Moreover, only 42 per cent of British trade is with the Commonwealth countries, and of this, only 47 per cent enjoys preference.

The position of the Common Market countries in this field is quite different: The products of associated overseas territories of EEC countries are to be admitted duty-free into the Common Market, while those of the rest of the world pay the full tariff rate. This is likely to cause considerable diversion of trade from, for example, Ghana, Nigeria, and Brazil.

OTHER RESTRAINTS ON TRADE

In addition to the tariff structure of the Six and Seven, there are, of course, other forms of protection. Some of them are so well organized that the inhabitants of the countries where they flourish have scarcely heard of them. For example, most people in Britain do not connect the term "uplift" with the device for putting a higher customs valuation on supplies sent by United States parent firms to their subsidiaries in Britain.

A widely used device is to levy a sales tax or purchase tax on the landed price of imported goods plus tariff paid. This means that a motor car entering the United Kingdom faces protection of around 45 per cent, instead of the 30 per cent of the actual tariff. The same thing happens in both France and Italy.

Some countries impose a revenue or excise tax on imports, which is not reduced and may even be increased when tariffs are cut. Examples of this are the Norwegian tax on motor cars and the Italian tax on cigarettes and cars, both of which have been increased recently. Indeed, foreign cigarettes entering Italy are now dearer than they were before the tariff on them was cut by 10 per cent.

THE GATT CONFERENCE

The General Agreement on Tariffs and Trade conference started last autumn. It was originally intended that it would fall into two parts, with Christmas coming in between, but this arrangement was

upset because the first part, a discussion on the external tariff of the Common Market with the other members of the GATT, overran its time. The problem at issue is that the individual countries of the Common Market have already bound some of their national tariffs in the GATT, and these bindings will be upset when the common external tariff comes into effect. The whole question of adjustments and concessions is still under negotiation, and it would be wrong to ignore the fact that considerable difficulties have been encountered.

Reducing Tariffs—How Fast?

The uncertainty over future tariff levels on both sides of the Atlantic is one of the major difficulties at the present time. How is this regarded in the EFTA countries? Broadly speaking, Sweden and Switzerland, both low-tariff countries, are anxious to see the greatest possible freedom of trade. In Austria, Portugal, and Norway, where industry is not nearly so well developed, neither management nor the trade unions want to see the level of protection reduced quickly. Denmark, which has a greater dependence on agriculture, comes midway between these two groups. At present, it is not possible to forecast that the EFTA internal tariff cuts will be complete much before 1970—and some members would like the process to be prolonged beyond even that date.

Generally speaking, United Kingdom tariffs are around or above the original level of the Common Market external tariff. There are some goods, such as watches and clocks, optical goods, scientific instruments, and cameras, for which the British tariff is traditionally high. For consumer durable goods, the British tariff is around or just above the level of the common external tariff. What is likely to happen to this high degree of protection? There is a growing feeling in Britain that it would be much better if the cold winds of competition were allowed to blow through English factories. For a long time now, the incentive to bring down costs and to be really competitive with foreign manufacturers just has not existed. For some industries and some products, the EFTA will introduce keen competition—as in some lines the Commonwealth does already. This will be so in certain engineering goods, such as machine tools, pumps, and valves from Sweden and Switzerland, and to a very

limited extent in motor cars. The British Government, through the President of the Board of Trade, has stated its readiness to consider tariff reductions at the GATT conference, and no doubt this was done with certain concessions in mind.

THE EFFECTS OF TARIFFS

The big question is the relevance of tariffs to the situation of the world at the present time. Can we seriously claim, in an age when satellites of all kinds are being launched almost daily and it is confidently forecast that there will be a man on the moon this year or next, that our industries need protecting as though they were tender plants unable to look after themselves? Shall we have a situation in which trade is freer with the moon than it is between Europe and America?

Is there, in fact, any justification for tariffs between the great industrial countries of North America and Europe? Is it in the best interests of our countries to shut ourselves in behind these high, artificial walls? The United States at the present time needs the best possible markets for its exports. These can only be obtained if other countries can trade with the United States. Britain needs the stimulus of greater competition to pep up its industries. And what of the Six? Is it conceivable that, if these highly efficient industrial nations can stand up to free competition from each other, they will need protection against the countries of the EFTA—or, indeed, against the United States? There is sufficient impetus to industrial expansion in the dynamic concept of a common market to render a high external tariff unnecessary, and it is not impossible that within a few years the external tariff of the Six could be down to a purely nominal level.

Underdeveloped Countries

What of the rest of the world? Beyond Europe and North America are the undeveloped countries, all wanting the opportunity to sell their raw materials to the manufacturing countries. If we could find the means to enable them to do this, the whole idea of aid programs could be rendered out of date.

One way to help these countries immediately would be to remove taxation on such products as coffee, tea, and cocoa. Another would

be to cut the level of protection and price support to sugar, oilseeds, and other products grown in temperate as well as tropical countries. But it is becoming increasingly clear that long-term solutions must involve modification of the policies by which the industrial countries claim special treatment for agriculture in all tariff negotiations. It is the success of the farmers in the industrial countries of the world that is one of the principal causes of the difficulties of the agricultural producers elsewhere.

Low-Cost Manufacturing Countries

The low-cost manufacturing countries, such as Japan, India, and Hong Kong, present another difficult problem. The United States has helped Japan by opening its markets to Japanese cameras, sewing machines, transistor radios, and other goods. Great Britain has done much less in admitting Japanese goods, but it has borne its full share of exports from Hong Kong, Pakistan, and India. Indeed, England has reorganized its cotton industry to bring it into line with a situation in which the cheap textiles that formerly were manufactured in Lancashire are now made in the Asiatic countries. We are today moving into a situation in which international specialization on a world-wide scale really operates—but it must operate for the countries of Asia and Africa as well as for those of Europe and North America.

NEW THINKING, NEW APPROACHES

Thus we have a series of economic problems crying out for new thinking and a new approach. First, there is the problem of making trade easier between manufacturing countries; second, the problem of making trade easier between the manufacturing countries and the undeveloped or primary producing countries; third, that of opening up trade between both of these groups and the low-cost countries of the East. Beyond and overshadowing these, but an integral part of them all, is the enduring problem of the relationship of the free world with the Eastern bloc.

There is no doubt that the free world is at a turning point where new political initiative is possible. Either we can make a major advance to economic liberalism, or we can risk losing the advantages and the initiative that have been gained—largely through U.S.

leadership—in the years since the war. This is a task in which all must share. European countries must now demonstrate that they have learned better ways to settle economic problems than by restricting trade. Britain, in particular, must show that it appreciates that an economy whose policies are aimed at promoting a high rate of economic growth is much more likely to overcome its problems than one in which the levels of production and exports rise at a painfully slow rate. In the Common Market, the lesson should be that a single economic community does not need to be surrounded by a tariff Great Wall of China.

For the small EFTA countries, the decisions are more difficult. Most of them have incomplete economies and, having joined EFTA, dare not take a further plunge into freer trade if this means risking economic ruin for their industries. The small countries must be patient and wait in the hope that the bigger nations will make the right decisions.

In recent years, the United States has held the line on the tariff question without making any big strides forward. The administration has limited powers for reducing tariffs, and these seem to be hedged around by safeguards (such as the peril-point provision) that render them much less useful than they otherwise would be. If we are to move into a situation where the North Atlantic countries are strong and able to take care of themselves, it must be on a basis of freer trade—and in the United States, this means on the basis of new tariff legislation.

WHERE THERE'S A WILL . . .

It would be wishful thinking to suppose that the GATT, as presently constituted, can solve these problems for us. It has been suggested that the time has come to think again about present GATT bargaining procedures, especially that of product-by-product negotiations between pairs of countries. In short, we may have to put reorganization of the GATT high up on the list of priorities. The object of this reform would be not only the desire for freer trade between manufacturing countries, but to make GATT work effectively and fairly for the underdeveloped countries as well.

Thus, the current GATT conference is a continuation and by no means a conclusion of the long struggle to solve world trading

problems. Nevertheless, it presents an opportunity that we must not fail to take.

Recently, the United States has taken a new step towards Europe by becoming a full member of the Organization for Economic Cooperation and Development—the successor to the OEEC. This is a new and untried body, but it should provide many opportunities for formal cooperation between the United States, the Six, the Seven, and Canada.

In short, we have organizations within which to work, and there is a growing awareness on both sides of the Atlantic of the nature of the problems to be solved. If our approach to these problems is realistic, if we look forward as well as outward, the trade pattern of the next decade should be much less frustrating and limiting than the one we are struggling with today. ♦

SURVEY OF BOOKS FOR EXECUTIVES

No Panaceas

TOP MANAGEMENT HANDBOOK. Edited by H. B. Maynard. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N. Y., 1960. 1,236 pages. $17.50.

*Reviewed by George Risk**

This is a thoughtful compendium of management ideas and practices written by 60 successful businessmen who obviously know what they are talking about. However, the reader who is searching for easy answers to top-management problems will find it no kit-bag of panaceas. What he will discover is a far more satisfactory, though intellectually more demanding, statement of the basic principles and general methods that business leaders have found effective when applied with reason and perseverance to a variety of business situations.

While the *Handbook* is, therefore, a valuable "how to" reference, perhaps of even more value is the fact that its main focus is, as David Rockefeller points out in his foreword, on "the advancement of an art or a skill that is assumed to be already present in the reader."

Another advantage of the *Handbook* is that it represents a garnering of the experiences of a remarkably varied assortment of business leaders. Its contributors include the top managers of large, medium, and small companies whose operations run the gamut from mining and manufacturing to retailing and insurance. Some of these writers are still comparatively young men. Others are close to retirement or have already relinquished the reins. Each of them offers a per-

* President, Hathaway Instruments, Inc., Colorado.

sonal summation of his experience in the special area about which he writes. The main emphasis throughout, however, is on what each of them actually does while managing—not on what the textbooks say a manager *ought* to do.

All these writers see the top manager's job as one of responsibility rather than privilege. They emphasize his key role in shaping and building the dynamic corporation—the backbone of our economic system. They charge him with the responsibility for conducting the affairs of the company so it will enrich the lives of its employees, as well as becoming a valuable part of the communities in which it operates.

These substantial responsibilities fall primarily on the shoulders of the top manager. It is true that the top man can share the load to some extent by building an integrated team of men around him. But, as the contributors continually stress, the ultimate responsibility rests with him. This comprehensive sourcebook should enable every manager who aspires to a job to better prepare himself for assuming that responsibility when the time comes.

Capital on the Cuff

THE NEW CAPITALISTS. By Louis O. Kelso and Mortimer J. Adler. Random House, 457 Madison Avenue, New York, 1961. 109 pages. $3.50.

*Reviewed by Richard Eells**

The New Capitalists is a small book. Developed from a thesis presented in a chapter of *The Capitalist Manifesto,* a previous book by the authors, it stands as a kind of extended footnote.

The idea it presents is challenging and imaginative. It proposes a Capitalist Diffusion Insurance Corporation (CDIC) to eliminate savings or the ownership of existing capital as an indispensable prerequisite to investment. It appears to present a way of offering credit for capital investment to the unpropertied individual much as he is now offered credit to foster mass consumption.

If it is a fact that "a capitalist is a member of a household which derives not less than half the amount the household spends on consumption from the ownership of capital, i.e., from interest, dividends, rents, royalties and the like"; and if it is a further fact that "not over 1 per cent of households in the American economy would be capitalist households under this definition"; then a reputedly capitalist country should most certainly give some thought to the proposal of Messrs. Kelso and Adler.

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They are prompted to push their idea, as a kind of addendum to *The Capitalist Manifesto,* for two reasons: First, there is a dearth of true capitalists in this country, according to their definition; and second, increased technology and its corollary, automation, threaten ultimately to eliminate the wage and salary return on work, leaving only the return on working capital.

How the worker can be brought to see this thesis—or even how the loan capital is to be assembled for CDIC—is not too clear. Nevertheless, this essay presents an interesting, challenging, and imaginative speculation.

Briefer Book Notes

(Please order books directly from publishers)

GENERAL

WHAT YOU SHOULD KNOW ABOUT INFLATION. By Henry Hazlitt. D. Van Nostrand Company, Inc., 120 Alexander Street, Princeton, N. J., 1960. 152 pages. $3.50. A brief, nontechnical exposition of the causes and cures of inflation, with advice on how to protect against further erosion in the value of savings. Among the questions considered are whether inflation is inevitable, whether full employment or economic growth is necessary, who makes inflation, and the usefulness of monetary management and price fixing.

PLANNING PRODUCTION, INVENTORIES, AND WORK FORCE. By Charles C. Holt *et al.* Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 419 pages. $10.00. Addressed to line executives and specialists alike, this book shows how new techniques of mathematical decision-making can be applied to the operation of a factory-warehouse system. It describes the methods themselves in an introductory section and includes chapters on methods applicable on a day-to-day basis as well as chapters providing the more complex mathematical analysis necessary for applying the techniques to new problems.

THE CRITICS OF KEYNESIAN ECONOMICS. Edited by Henry Hazlitt. D. Van Nostrand Company, Inc., 120 Alexander Street, Princeton, N. J., 1960. 427 pages. $7.00. A compilation of 22 essays, most of which have not been readily available until now. Mr. Hazlitt introduces the volume with a brief review of the criticisms he himself propounded two years ago in *The Failure of the "New Economics."* His chronological presentation includes two essays that antedated Keynes: Jean Baptiste Say's statement of his Law, which Keynes tried to disprove, and a paper by John Stuart Mill.

THE DISTRIBUTION REVOLUTION. By Walter Hoving. Ives Washburn, Inc., 119 West 40 Street, New York 18, N. Y., 1960. 150 pages. $3.00. Asserting that "unless the world gains a better understanding of the principles of mass distribution, the drive for mass production will continue to cause periodic depressions," Mr. Hoving sets forth 13 basic principles of distribution—among them, self-consumption, a constantly increasing income, the one-price principle, and compulsory competition—and discusses each in turn, using illustrations from his own experience.

ENGINEERING DATA PROCESSING SYSTEM DESIGN. By Arthur D. Even. D. Van Nostrand Company, Inc., 120 Alexander Street, Princeton, N. J., 1960. 282 pages. $6.50. A comprehensive guide for the engineering department planning to convert from a manual to a mechanized data-processing system. Among the subjects covered are designing, justifying, installing, operating, and controlling a mechanized system, including the use of microfilm and punched cards. A set of sample forms taken from a successful system is included.

ELECTRONIC BUSINESS MACHINES. Edited by J. H. Leveson. New York Philosophical Library, Inc., 15 East 40 Street, New York 16, N. Y., 1960. 272 pages. $15.00. Based on a series of lectures delivered at the Technical College, Dundee, Scotland, this book provides an introduction to the uses of electronic computers in manufacturing and office operations. Among the topics discussed are the features of computers, managerial decisions for computers, the selection and training of computer personnel, and the economics of computers.

THE LIBERAL HOUR. By John Kenneth Galbraith. Houghton Mifflin Company, 432 Fourth Avenue, New York, N. Y., 1960. 197 pages. $3.50. Professor Galbraith introduces his latest book by observing that the greatest menace to our way of life may be neither Communism nor The Bomb, but "our terrible solemnity," a serious source of inflexibility. Hoping to contribute to a more relaxed debate, he has gathered together some essays previously published in magazines and some new ones. They range from such topics as competition with the Soviet Union, the obsolescence of our equipment for maintaining our intellectual capital, and inflation, to small enterprise and bankruptcy, and the pleasures and pitfalls of buying an abandoned farm.

TRADEMARK SELECTION: *The Management Team Method.* The United States Trademark Association, 6 East 45 Street, New York 17, N. Y., 1960. 91 pages. $2.00. A transcript of a panel discussion held at the 83rd annual meeting of the USTA, at which four authorities representing a management team and four representing a consultant team addressed themselves to the problem of creating and protecting a trademark for a hypothetical corporation. Their lively discussion touches on the ramifications of trademark selection for the company's advertising, marketing, designing, and public relations.

THE EFFECTS OF MASS COMMUNICATIONS. By Joseph T. Klapper. The Free Press of Glencoe, Ill., 119 West Lake Street, Chicago 1, Ill., 1960. 302 pages. $5.00. An attempt to collate and integrate the findings of published

research and thinking on the social and psychological effects of (1) mass communication as an agent of persuasion (not including advertising) and (2) specific kinds of media content. The author also discusses the current state of the research and offers a theoretical scheme of his own.

INVESTMENTS. (Seventh Edition.) By David F. Jordan and Herbert E. Dougall. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 582 pages. $10.60. In this substantially revised edition, the latest developments in the field—and new legislation affecting investment—are covered, and the order of presentation has been changed to reflect a more logical approach. Also included is a new chapter on the investment market.

MANAGEMENT PRACTICES. By Richard C. Anderson. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N. Y., 1960. 302 pages. $7.00. The author, an attorney for Lockheed Aircraft Corporation, deals first with the elements of management—the essential tasks that make integrated human enterprise possible (planning, organizing, staffing, and the like)—and then with its processes (such as operating, auxiliary, and service). Check lists and brief case studies are included.

TRADEMARK MANAGEMENT: ***A Guide for Businessmen.*** (Third Edition.) The United States Trademark Association, 6 East 45 Street, New York 17, N. Y., 1960. 130 pages. $3.00. This handbook discusses, in simple language, such key policy matters as the selection of a trademark, its registration and proper uses, and the differences between trademarks and trade names. Some minor alterations in wording distinguish it from the 1956 edition.

BASIC STATISTICS FOR BUSINESS ECONOMICS. By C. Frank Smith and D. A. Leabo. Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Ill., 1960. 301 pages. $8.00. A text designed for a one-semester undergraduate course. The emphasis is on the use of statistical methods as an analytical tool.

FINANCE

THE PRINCIPLES OF AUDIT SURVEILLANCE. By Harvey Cardwell. D. Van Nostrand Company, Inc., 120 Alexander Street, Princeton, N. J., 1960. 465 pages. $9.00. This discussion of the principles, theories, and technical concepts of general auditing required to protect an organization from "inside" theft is illustrated by many case histories. A glossary of new terms and some practical tests for detecting embezzlement are provided.

ACCOUNTING IN ACTION: ***Its Meaning for Management.*** By Billy E. Goetz and Frederick R. Klein. Houghton Mifflin Company, 2 Park Street, Boston 7, Mass., 1960. 713 pages. $7.50. Designed for the practicing manager, as well as for beginning students at the college level, this text describes the use of accounting as an administration tool. Introducing each chapter with a specific accounting project or problem, the authors go on to discuss various means of resolving it.

READINGS IN COST ACCOUNTING, BUDGETING, AND CONTROL. (Second Edition.) Edited by William E. Thomas. South-Western Publishing Company, 5101 Madison Road, Cincinnati 27, Ohio, 1960. 833 pages. $7.00. The first half of this symposium discusses the background and underlying theory of accounting and budgeting as managerial tools for planning and control, and of cost accounting for income determination. The second half is concerned with the problem areas of cost accounting and budgeting.

CONSUMER AND COMMERCIAL CREDIT MANAGEMENT. By Robert H. Cole and Robert S. Hancock. Richard D. Irwin, Inc., 1818 Ridge Avenue, Homewood, Ill., 1960. 650 pages. $9.00. A text addressed not only to the student but also to the business executive responsible for implementing his company's credit and collection activities. Devoting equal space to consumer and business credit, the authors cover such subjects as credits and collections, types of consumer credit, commercial credit and terms of sales, and commercial credit insurance.

SALES

INCREASING SALES EFFICIENCY: *Conference on Sales and Marketing Management*. Edited by Frederick E. May. Bureau of Business Research, The University of Michigan, Ann Arbor, Mich., 1959. 163 pages. $4.00. These proceedings of the fifth in a series of conferences on sales and marketing management held under the auspices of The University of Michigan cover such problems as rising selling costs, how to improve the quality and direction of selling effort, the methods available to cope with the increasing complexity of modern marketing, and how buying habits differ among various segments of the population.

THE NEW PSYCHOLOGY OF SELLING. By Mel S. Hattwick. Foreword by Arthur H. "Red" Motley. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N. Y., 1960. 276 pages. $5.95. To help salesmen in "selling the customer the way he likes to buy," the author explains the use of psychology in modern salesmanship; analyzes why the customer buys, what he wants, and what the salesman should know about himself; offers a seven-step selling method; and shows how it can be applied in different kinds of selling situations.

THE FIELD SALES MANAGER: *A Manual of Practice*. (AMA Management Report No. 48.) Edited by Albert Newgarden. American Management Association, Inc., 1960. 380 pages. $7.50 (AMA members, $5.00). Focusing on elements of the field sales manager's job that involve getting things done through people, this compendium deals with six major topics: the management job; planning, organization, and control; leadership; communication and reporting; recruitment and selection; and training and development. Bibliographies of suggested readings and of guides to audio-visual aids are provided in the appendix.

Q&A on AMA

Q.

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